**STUDENT SUPPORTMATERIAL**

**IMPORTANT QUESTIONS WITH ANSWERS**

**SESSION 2020-21**

**CLASS 12**

**ECONOMICS**

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**Unit 1**

**National Income**

**Objective type questions**

1. **In** the production of sugar, sugarcane is

(a) Final good (b) a capital good (c) an intermediate good (d) none of these

1. Capital good are those goods :

(a) which are used in the production process for several years;

(b) which are used in the production process for few years;

(c) which involve depreciation losses;

(d) both (a) and (c)

1. which of the following leads to the depreciation?

(a) Normal wear and tear (b) Damages due to floods

(c) Damages due to market crash (d) None of these

1. ‘income of the family’ is the example of which variable ?

(a) stock (b) flow (c) both (a) and (b) (d) neither (a) and (b

1. A quantity measured per unit of time period is known as

(a) stock variable (b) flow variable (c) inventory (d) none of these

1. Goods purchased for the following purpose are final goods:

(a) For satisfaction of wants

(b) For investment in firms

(c) Both (a) and (b)

(d) None of the above

1. Consumption of fixed capital refers to fall in the value of fixed assets-

(a) Due to normal wear and tear

(b) Due to abnormal wear and tear

(c) Due to foreseen obsolescence

(d) Due to normal wear and tear and foreseen obsolescence

1. Value of output is equal to :

(A) Sales + change in stock (B) sales + closing stock

(C) Sales + opening stock (D) sales – opening stock

1. Depreciation of fixed capital assets refers to (2016)

(a) normal wear and tear

(b) foreseen obsolescence

(c) normal wear and tear and foreseen obsolescence

(d) unforeseen obsolescence

1. National income is the sum of factor incomes accruing to:- (2016)

(a) nationals

(b) residents

(c) economic territory

(d) both residents and non-residents

1. . Which of the following makes GDP an inappropriate index of welfare?

(a) Non-monetary transactions

(b) Externalities

(c) Composition and distribution of GDP

(d) All of these

1. The impact of an externality is:
2. positive
3. negative
4. either positive or negative
5. neither positive or negative

**Very Shor Answer type Questions**

1. Define intermediate goods.

Ans- These are those goods which are within the boundary line of the production and not ready for use by their final users. Example: Machine purchased by a dealer, Wood used for making a chair by the carpenter.

1. Given one example of negative externalities. (2018)

Ans- →Environmental pollution

→Degradation of resources

1. Give any two examples of flow concept. (2019)

Ans-→Consumption

→Income

1. Define final good.

Ans- Final goods are those goods which have crossed the boundary line of the production and are ready for use by their final users. Example: A car purchased by a household, Milk purchased by a household.

1. What is investment?

Ans- Investment is a process of increase in the stock of capital.

1. Define stock. (2016)

Ans- Stock is that quantity of an economic variable which is measured at a particular point of time. Example: Wealth, Capital, Supply of money, Water in the overhead tank etc.

1. Define flow. (2016, 2019)

Ans- A flow is a quantity measured over a specified period of time. Example: Income, Investment, Leakage of water from overhead tank etc.

1. Define circular flow of income. (2017)

Ans- Circular flow of income refers to the unbroken flow of income across different sectors of the economy.

1. Define national income.

Ans- National Income is the sum of the total factor incomes earned by normal residents of a country during the period of an accounting year.

1. Define 'capital goods'. (2019)

Ans- Capital Goods are those goods which can be used to produce consumer goods. These are the fixed assets of producers. Like machinery, plant etc. [all machine are not capital good. It depends on use of good.]

1. What is Mixed income? (2017)

Ans-it refers to the income earned by self-employed people. It contained wages, rent, interest and profit which cannot be separated.

**Short Answer Type Questions**

1. Giving reason, classify the following into intermediate and the final goods:

(i) Machine purchased by a dealer.

(ii) A car purchased by a household.

Ans- Machine purchased by a dealer is an intermediate good because a dealer purchases a machine for further sale to its final users.

(ii) A car purchased by a household is a final good because the household is the final user of the car and no value is to be added to the car.

1. Classify the following goods, into intermediate goods and final goods:

(i) Milk purchased by a household.

(ii)Purchase of rice by a grocery shop.

(iii) Purchase of an air conditioner for use in shop.

(iv) Cloth use for making a sofa set by the carpenter.

Ans- (i) Milk purchase by a household is a final good because milk directly satisfies the wants of the household(s) or the consumer(s).

(ii) Purchase of rice by a grocery shop is an intermediate good because rice is purchase for resale to its final user.

(iii) Purchase of an air conditioner for use in shop is a final good because air conditioner is an investment expenditure as it adds to the capital stock of the shopkeeper.

(iv) Cloth used for making a sofa set by the carpenter is an intermediate good as it used as a raw material.

1. If the real gross domestic product is 200, and the nominal gross domestic product is 210, calculate the price index (base = 100). (2015)

Ans-Price Index =Nominal GDP/ Real GDP \*100

Price Index = 210/200 \*100

Price Index =105

1. Government incurs expenditure to popularize yoga among the masses. Analyse its impact on gross domestic product and welfare of the people. (2016)

Ans-(a) Impact on Gross Domestic Product (GDP): Government expenditure adds to aggregate demand in the economy. It has a multi plier effect on GDP when there is excess capacity (unutilised production capacity) in the economy.

(b) Impact on Welfare: Expenditure on yoga is expected to improve physical and mental health of the people. Accordingly, skill formation as well as efficiency is expected to rise. Rise in efficiency leads to rise in income and therefore, rise in welfare.

1. Distinguish between intermediate goods and final goods. (2017)

Ans.

|  |  |  |
| --- | --- | --- |
| Basis | Intermediate Goods | Finals Goods |
| Production territory | These goods remain within the boundary line of production, and are not ready for use by their final users | These goods are outside the boundary line of production, and are ready for use by their final users. |
| Utilisation of goods | These goods may be used as raw material for the production of other goods during the accounting years. | These goods are not used as raw material for the production of other goods during the accounting years. |
| Value addition | Value is yet to be added to these goods. | Further value is not to be added to these goods |
| Inclusion in NI | These goods are not included in the estimation of national income. | These goods are included in the estimation of national income. |

1. Distinguish between stocks and flows. Give an example of each. (2017,2018)

Ans.

|  |  |
| --- | --- |
| STOCK | FLOW |
| Stock refers to those variables which are measurable at a given point of time. | Flow refers to those variables which are measurable during a given period of time. |
| It is not time dimensional. | It is time dimensional. |
| It is static . | It is dynamic. |
| Example-Wealth, money supply etc. | Example – Income, Investment etc. |

1. Distinguish between capital goods and consumer goods. (2018)

Ans- Consumer goods- consumer goods are those goods which are directly used for the satisfaction of human wants. These are not used in the production of other goods. EX. Ice cream and milk used by the household.

Capital goods- Capital goods are those goods which are used in the process of production for several years and which are of high value. These goods are fixed assets of the producers. Use of these goods leads to depreciation. Example:- Plant and machinery.

1. Distinguish between real GDP and nominal GDP. (2019)

|  |  |
| --- | --- |
| Nominal GDP | Real GDP |
| (1). It is the market value of the final goods and services produced within the domestic territory of a country during an accounting year,as estimated using the current year prices. | (1). It is the market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated using the constant year prices. |
| (2). It can increase if prices level risen even when there is no increase in the flow of goods and services in the economy. | (2). It can increase only when the flow of goods and services increase in the economy. |
| (3).It is known as GDP at current year prices. | (3)It is known as GDP at constant prices. |
| (4). It is not a good measure of welfare of people. | (4). It is a good measure of welfare of people. |

1. State three limitations of GDP as an index of economic welfare.

Or (2017,2019)

"Gross Domestic Product (GDP) does not give us a clear indication of economic welfare of a country." Defend or refute the given statement with valid reason.

Ans. It not always true that when GDP is increasing Welfare also increases it has certain limitations.

Limitations of GDP as a index of welfare :

(1).Distribution Of Income: If the distribution of income is unequal then GDP as an index of welfare loses significance.

(2). Composition of GDP: If GDP increased due to increase in the production of defence goods or if luxuries are produced for richer sections of the society and the poor suffers deprivation, GDP growth becomes meaningless.

(3) Non-monetary exchanges: If there are large numbers of the non-monetary exchanges in the economy then it leads to the underestimation of GDP and it becomes inappropriate index of welfare.

(4).Externalities: Externalities refers to good and bad impacts of an economic activity without paying the price or penalty for that. There are both positive and negative externalities. Positive externalities increase the welfare of the people and negative externalities decrease the welfare of the people. But GDP does not count the impact of externalities. So it is an inappropriate index of welfare.

1. Explain the circular flow of income. (2019)

Ans- Circular flow of income refers to the flow of factors, goods and money from one sector to other sectors.

Assumptions:-

→In economy only two sectors exist [household sector and business sector].

→Both sectors are not saving anything.

Explanation:- Different sectors of economy depends on each other for different purposes.

Household sector is the owner of all factors of the production and it provides factors to the business sector. Business sector is the producer of different goods and services and it provides produced goods to household sector. It is real flow (flow of goods and factors form one sector to other sector).

Business sector is giving payment to factors for factor services and household sector is paying to business sector for goods and services. It is Nominal Flow (it refers to the flow of money from one sector to other sector).

Both nominal and real flows are opposite of each other. It means one flows opposite side of other.

→This model has 3 phases:- Production phase:- by utilising factors of production provided by household sector, business sector produces different goods and services. The value of all final goods and services produced in a specific time period is called gross domestic product.

→Distribution phase:- in second phase entire value of production is distributed among the factors of production [ given to household sector]. It means sum of factor income is equal to value of production.

→Expenditure phase:- in third phase the entire income received by household sector is disposed on different goods and services. It means

Final expenditure=sum of factor income=value of production

**Long Answer Type Questions**

1. What are the precautions required to be taken in estimating national income by value added method? (2017)

Ans- Precautions regarding product method or value added method

→ The value of intermediate goods should not be included. Only the value of the final goods to be included. Otherwise, the problem of double counting may arise.

→ The value of second hand goods is not to be included because the value of these goods is already accounted for during the year they were produced.

→ The value of illegal goods to be excluded because these goods have no legal sanction to be produced or soled.

→ The value of leisure items and non-market goods not to be included because these are not produced with the motive of earning income.

→ The value of transfer payments are not to be included because these transactions do not contribute to the production of goods and services.

1. What are the precautions required to be taken in estimating national income by income method?

Ans- Precautions regarding income method (2017)

→ The transfer incomes are not included in national income because these transactions do not contribute to the flow of goods and services.

→ The income illegal Activities is not to be included in the national income since the illegal activities are not backed by the legal sanction

→ Commissions paid on the sale and purchase of second hand goods are to be included in national income as these are a reward for rendering factor service

→ The income earn by selling shares is also not to be included since this is only transfer of ownership of assets.

→ Imputed rent of owner occupied houses is to be treated along with rent as a component of factor income.

1. What are the precautions required to be taken in estimating national income by expenditure method? (2017)

Ans-→ The expenditure on intermediate goods are not to be estimate, otherwise it may lead to problem of double counting.

→ The expenditure on second hand goods is not to be included because it is already been included in the year when these goods have been manufactured

→ The expenditure on transfer payments is not to be included because this expenditure doed not lead to production of goods and services in the economy.

→ The expenditure on illegal goods is also not to be included because these goods are not been legally sanctioned.

1. Will the following factor incomes be included in domestic factor income of India? Give reason for your answer (2015, 2016)

→compensation of employees to the residents of Japan working in Indian embassies in Japan.

Ans. Yes, because Indian embassy in Japan is a part of domestic territory of India.

→Profits earned by a branch of foreign bank in India.

Ans. Yes, because the branch of foreign bank is within the domestic territory of India.

→ Rent received by an Indian resident from Russian embassy in India.

Ans. No, because Russian embassy in India is not a part of domestic territory of India.

→ Profit earned by a branch of state bank of India in England.

Ans. No, because the branch of state bank of India in England is not a part of domestic territory of India.

→ Financial help given to flood victim.

Ans. No, because financial help is transfer payment.

1. Will the following factor incomes be a part of domestic factor income of India? Give reasons for your answer. (2016, 2017)

→ Profit earned by foreign banks from their branches in India.

Ans. Yes, because the branch of foreign bank is within the domestic territory of India.

→ salary received by an Indian resident, working in American embassy in India.

Ans. No, because American embassy in India is not a part of domestic territory of India.

→ profit earned by an Indian company from its branch in Singapore.

Ans. No, because the branch of Indian company is not within the domestic territory of India.

→ Compensation of employees given in the residents of china working in Indian embassy in china.

Ans. Yes, because Indian embassy in china is a part of domestic territory of India.

1. Whether the following items will be included in national Income? Give Reasons for your answers.

→ Payment of electricity bill of by a factory. (2017)

Ans. No, it is a part of intermediate consumption expenditure.

→ Dividend on shares.

Ans. Yes, it was, as it is a part of profits.

→ Increase in stock of consumer goods with households.

Ans. No, as it is assumed that such goods are consumed, the moment they are purchased.

→ Bus fare of a passenger.

Ans. Yes, it is a part of private final consumption expenditure.

→ Gains from sale of shares.

Ans. No, as it is a capital gain.

→ Rent earned by reliance from its building in USA.

Ans. Yes, it is a factor income from abroad.

→ Gifts from abroad.

Ans. No it is a transfer income.

→ Retained earnings of resident companies from Abroad.

Ans. Yes, it is a factor income from Abroad.

→ Expenses of foreign visitor in India.

Ans. Yes, it is a part of Net exports.

→ Gifts to a trust from Japan.

Ans. No, it is a current transfer from rest of the world.

1. From the following data calculate Net value added at factor cost: (2017)

|  |  |
| --- | --- |
| Items | Rs.(in lakhs) |
| (i) Net factor income from abroad | 30 |
| (ii) Sales | 3500 |
| (iii) Purchase of intermediate goods | 2000 |
| (iv) consumption of fixed capital | 500 |
| (v) Exports | 400 |
| (vi) Indirect taxes | 350 |
| (vii) Change in stock | 50 |

Ans- GVAmp = sales + ∆ stock- IC

= 3500 + 50 – 2000

= 1550

NVAFC = GVAMP- Dep.- NIT

= 1550-500-350

= RS. 7Lakhs

1. There are only two producing sectors A and B in an economy. Calculate: (2018)

(a) Gross value added at market price by each sector

(b) Nation income

|  |  |
| --- | --- |
| Items | RS. (in crores) |
| (i) NFIA | 20 |
| (ii) Sales by A | 1000 |
| (iii) sales by B | 2000 |
| (iv) Change in stock of B | (-) 200 |
| (v) Closing stock of A | 50 |
| (vi) Opening stock of A | 100 |
| (vii) consumption of fixed capital by A and B | 180 |
| (viii) Indirect taxes paid by A and B | 120 |
| (ix) Purchase of raw materials by A | 500 |
| (x) Purchase of raw materials by B | 600 |
| (xi) exports by B | 70 |

Ans- (a) 1. GVAMP by sector A= sales + ∆ stock- IC

= 1000+ (50-100)-500

= 450

(ii) GVAMP by sector B= sales + ∆ stock- IC

= 2000-200-600

= 1200

(b) NNPFC= GVAMP buy sector A+ GVMP- Dep. – NI+ NFIA]

= 450+1200-180-120+20

= 1370 Crores

1. Given the following data and using income method calculate: (2017)

(a) NNPMP

(b) GDPFC­

|  |  |
| --- | --- |
| Items | RS. (in crores) |
| Rent and interest | 6000 |
| Wages and Salaries | 1800 |
| Undistributed profit | 400 |
| Net indirect taxes | 100 |
| Subsidies | 20 |
| Corporation tax | 120 |
| NFIA | 70 |
| Dividends | 80 |
| Consumption of fixed capital | 50 |
| Social security contribution by employers | 200 |
| Mixed Income | 1000 |

Ans- NDPFC= Compensation of employees (COE) + operating surplus (rent + interest + profit)+ Mixed income

= (1800 +200)+(6000+400+120+80)+1000

= 9600

NNPMP=NDPFC +NFIA+NIT

=9600-70+100

=9630.

1. Given the following data, find the missing value of ‘Private Final consumption Expenditure’ and ‘operating surplus’. (2019)

|  |  |  |
| --- | --- | --- |
| S. No. | Particulars | Amount (in crores) |
| I | National Income | 50000 |
| Ii | Net Indirect Taxes | 1000 |
| Iii | Private Final Consumption Expenditure | ? |
| Iv | Gross domestic Capital Formation | 17000 |
| V | Profits | 1700 |
| Vi | Government Final Consumption Expenditure | 12500 |
| Vii | Wages and Salaries | 20000 |
| Viii | Consumption of fixed Capital | 700 |
| ix | Mixed Income Of Self Employed | 13000 |
| X | Operating surplus | ? |
| Xi | Net Factor Income From Abroad | 500 |
| Xii | Net Exports | 2000 |

Ans. Operating Surplus = (i) – [(vii) + (ix) + (xi)]

= 50000 – (20000 + 13000 + 500)

= 19700 crore

Private Final Consumption Expenditure = (i) – [(iv)+ (vi) + (xi) + (xii)] + (vii) + (ii)

= 50000 – (17000 + 12500 +

2000 + 500) + 700 + 1000

= 19700 crore

**Unit 2**

**Money and banking**

**Objective Type Questions**

1. If legal reserve ratio is 20%, the value of money multiplier would be \_\_\_\_\_\_ (2019)

(a) 2

(b) 5

(c) 3

(d) 4

1. Central bank is an apex bank of the country that:

(a) Controls the entire banking system of the country

(b) Issues currency

(c) Acts as a banker to the government

(d) all of these

1. Commercial banks create money by way of:
2. Time deposits (b) demand deposits (c) treasury bills (d) bill of exchange
3. In the context of commercial bank, which one of the following statements is correct?

(a) Note-issuing authority of the country

(b) Creates credit on the basis of cash reserves

(c) Accepts deposits of the general public

(d) Both (b) and (c)

1. Demand deposits include (2017)

(a) saving account deposits and fixed deposits

(b) saving account deposits and current account deposits

(c) current account deposits and fixed deposits

(d) all types of deposits

**Very Short Answer Type Questions**

1. Define money. (2017)

Ans- A thing which is commonly accepted as a medium of exchange is called money.

1. Who are the suppliers of money in India?

Ans- (i) The government of the country

(ii) The central bank of the country

1. Define demand deposits. (2019)

Ans- Demand deposits of commercial banks are those deposits which can be withdrawn from the bank on demand or by writing a cheque any time.

1. Write the components of money supply (M1). (2017,2018)

Ans- (i) Currency with the people

(ii) Demand deposits with commercial banks

(iii) Other deposits

1. Define money supply. (2017)

Ans-Money supply refers to the total quantity or stock of money available in the economy at a point of time.

1. Define credit multiplier. (2019)

Ans- Credit multiplier is the reciprocal of RR (reserve ratio).

Credit Multiplier = 1/RR

1. What are primary deposits? (2019)

Ans- Primary deposits are cash deposits with the commercial banks deposited by the people.

1. What are secondary deposits?

Ans- Secondary deposits also called derived deposits are those deposits which arise on account of loans by the banks to the people.

**Short Answer Type Questions**

1. Credit creation by the commercial banks can increase the economic growth? Comment.

Ans- yes, credit creation by commercial banks can increase the growth rate of country. Because

→Credit creation process increases the availability of funds for investment.

→Credit creation process increases the size of market by increasing the number of buyers of goods.

1. Explain the impact of demonetisation on credit creation by the commercial banks.

Ans- it can be explained under following points:-

→Due to demonetisation primary deposits of commercial banks increased.

→It enables commercial banks to create more money through credit creation process.

1. Currency is issued by the central bank, yet we say that commercial banks create money. Explain. How is this money creation by commercial banks likely to affect the national income? (2015)

Ans- →Commercial banks do not issue the currency but through the process of credit creation, commercial banks can influence the money supply in economy.

→If commercial banks increase the credit creation then in may increase the money supply in economy and vice-versa.

→Loans provided through credit creation process by commercial banks mainly used for investment or production purposes and rise in investment leads to many times more increase in the national income of an economy because of multiplier effect.

1. Explain the process of money creation by a commercial bank using a hypothetical numerical example. (2017, 2019, 2020)

Ans- Commercial banks are the secondary source of money supply in an economy. Credit creation or money creation process is the backbone of economy.

Important points about credit creation:-

→Commercial banks do not lend all the money available with them. They keep a certain part with them and remaining funds can be lent.

→Demand deposits are used as money supply in economy.

→With their experience they know that all the depositor will not come together and they will not withdraw their all deposits at a time.

→Commercial banks do not lend money in the form cash. But in the form of credit entry (called secondary deposits)

This process can be explained through an example.

Let’s assume primary / initial deposits =1000 rupees and reserve ratio is 20%.

|  |  |  |  |
| --- | --- | --- | --- |
| Steps / round | Primary deposits | Reserves | Credit /Loan |
| I | 1000 | 200 | 800 |
| II | 800 | 160 | 640 |
| III | 640 | 128 | 512 |
| IV | 512 | 102 | 410 |
| This process continues | ↓ | ↓ | ↓ |
| Till reserves end. | ↓ | ↓ | ↓ |
| Total | 5000 | 1000 | 4000 |

In this process it is explained how commercial banks can convert primary deposits into credit and then how credit is used as primary deposits. By this process commercial banks can generate multiple times credit as compare to their primary deposits.

1. Explain, using a numerical example, how an increase in reserve deposit ratio affects the credit creation power of the banking system. (2019)

Ans- Reserve ratio and credit creation power both are inversely related with each other.

Suppose reserve ratio is 20% then value of credit multiplier is 5. (1/RR→ 1/20%=5)

Now reserve ratio is increased to 25% then value of credit multiplier is 4. (1/25%=4)

So, an increase in reserve deposit ratio reduces the credit creation power of the banking system.

1. Explain the 'bank of issue' function of central bank. (2015, 2016)

Ans- →The Reserve Bank of India has the sole right to issue currency notes except one rupee notes and coins.

→Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

→India follows the minimum reserve system for issuing currency.

→Under it RBI has a reserve of 200 crore rupees fund in which 115 crore rupees are in term of gold and 85 crore rupees in term of foreign securities.

Importance of this function:-

→Uniformity in Monetary System (issuing notes).

→Easy control and monitoring.

→Building faith of people in monetary system of country.

1. Explain the "banker to the government" function of the central bank. (2015, 2016, 2017)

Ans-→ RBI works as banker, agent, and advisor to the government of India and state governments.

→RBI provides short term loan to government to fulfil the temporary gap between public expenditure and public receipts.

→RBI maintains accounts of Government of India and state governments.

→RBI collects receipts and makes payments on behalf of the government.

Importance of this function:-

→Easy management of accounts of government.

→RBI sells and buys securities on behalf of government.

→RBI provides advice to the government related to economic Matters.

→RBI provides loans to the government.

1. Explain the "bankers' bank" function of the central bank. (2015, 2016, 2017, 2019)

Ans-→Relation that customers have with their Bank, similar type of relationship RBI and commercial banks have.

→RBI accepts deposits of commercial banks and provides loans to commercial banks.

→RBI performs supervisory role for proper compliance of rules/ policies and other instructions.

Importance of this function:-

→Easy control and monitoring of banking system.

→Working of commercial banks in favour of customers.

1. Explain the "Lender of Last Resort" function of the central bank. (2019)

Ans- →When commercial banks are not able to collect funds from market when they require, that time RBI provides loan to commercial banks. This is lender of last resort function of RBI.

→RBI performs this function because RBI holds reserves of commercial banks as security.

→RBI provides loans on the basis of securities and without securities to commercial banks.

Importance of this function:-

→ this is important for Stability of banking system.

→ this is important to Availability of sufficient funds for commercial banks.

→ this is important to Maintaining sufficient liquidity commercial banks.

**Unit 3**

**Determination of Income and Output**

**Objective type questions**

1. Suppose in a hypothetical economy, the income rises from 5,000 crore to 6,000 crore. As a result, the consumption expenditure rises from 4,000 crore to 4,600 crore. Marginal propensity to consume in such a case would be.

(a) 0.8

(b) 0.4

(c) 0.2

(d) 0.6

1. The value of multiplier is (2015)

(a) 1 /MPC

(b) 1/MPS

(c) 1 - /1-MPS

(d) 1/MPC-1

1. If M PC = 1, the value of multiplier is (2015)

(a) 0

(b) 1

(c) between O and 1

(d) infinity

1. If the marginal propensity to consume is greate r than marginal propensity to save, the value of the multiplier will be: (2017)

(a) greater than 2

(b) less than 2

(c) equal to 2

(d) equal to 5

1. When aggregate demand is greater than aggregate supply, inventories: (2017)

(a) fall

(b) rise

(c) do not change

(d) first fall, then rise

1. Aggregate demand can be increased by (2017)

(a) increasing bank rate

(b) selling government securities by Reserve Bank of India

(c) increasing cash reserve ratio

(d) none of the above

**Very short answer type question**

1. Define aggregate supply. (2015, 2018)

Ans- aggregate supply refers to the value of all the final goods and services which all producers are ready to sale at different output levels in a given time period.

1. What is 'aggregate demand' in macroeconomics? (2015)

Ans- aggregate demand refers to the value of all final goods and services which are demanded by all the consumers in a given time period at different income levels.

1. Define marginal propensity to consume. (2017)

Ans- An increase in consumption caused by an addition to income, the ratio of both is known as the marginal propensity to consume.

MPC = ∆C/∆Y

1. Define marginal propensity to save. (2017)

Ans- Marginal propensity to save (MPS) is the ratio of the change in total saving to change in total (national) income.

MPS = ∆S/∆Y

1. State the meaning of autonomous consumption. (2019)

Ans- it refers to the minimum consumption which takes place even at zero income level.

1. If marginal propensity to save is 20% and is constant at all levels of income and the autonomous consumption is 100 crore, construct consumption function of the given hypothetical economy.(2019)

Ans-when MPS is 20% then MPC will be 80% (or 0.8)

C=c +MPC \*Y

C=100+0.8Y

1. State the following statement as true or false. Give valid reasons. In a two-sector economy, if consumption is equal to income, average propensity to save will be zero. (2019)

Ans-True,

We know that, Y = C + S When C = Y, S will be zero.

Thus, APS = s/y= 0/y = 0]

1. State the following statement as true or false. Give valid reasons. In a two-sector economy, if income is zero, consumption will also be zero. (2019)

Ans-False,

If income is zero, consumption will not be zero. Because, there is always some minimum level of consumption (autonomous consumption) in the economy even when income level is zero.

1. Which of the two, average propensity to consume or average propensity to save, can be negative and why? (2019)

Ans-APS can be negative because savings can be negative.

APC cannot be negative because consumption cannot be negative.

1. State the meaning of ex-ante savings. (2019)

Ans- Ex-ante savings are those savings which people intend to make in the economy during the period of one year.

1. State the following statement as true or false. Give valid reasons. According to Keynesian theory of employment, ex-ante savings and ex-post savings are always equal. (2019)

Ans-False, Ex-ante savings are those savings which people intend to make in the economy during the period of one year. Ex-post savings refer to actual savings in the economy during the period of one year. So, the two may or may not be equal.

1. Give the meaning of involuntary unemployment. (2017, 2019)

Ans- it refers to a situation in which people who are able to work and willing to work but not getting work at present wage rate.

1. What is meant by the "Effective Demand Principle" in Keynesian theory of employment? (2019)

Ans- effective Demand refers to that situation in the economy when planned AS = planned AD ( or S = I) along with fuller utilisation of resources. So that there is no excess capacity or unemployment in the economy.

**Short answer type questions**

1. What is consumption function?

Ans- Consumption Function explains relationship between consumption and income.

C = f (Y)

Where C= Consumption Y= National Income f= Functional relationship

Equation of Consumption Function

C= c + MPC \* Y

C= Autonomous consumption.

C does not change. It is not affected by change in income. Consumption expenditure at Zero level of income is called autonomous consumption.

1. Define Aggregate demand. State its components. (2016, 2019)

Aggregate demand is the total demand for goods and services in the economy. Aggregate demand in fact represents the total expenditure of goods and services in an economy.

There are four components of aggregate demand (AD):

1. Consumption demand = It is defined as the value of goods and services that households are able and willing to buy at a particular time.

This demand is influenced by many variable such as price, income, wealth, expiated income, taste and preferences of individuals and so on.

2. Investment: - Investment is the addition to the stock of capital goods, in the nature of equipment, residential structure or inventory.

3. Government Expenditure: - The level of government demand for goods and services is determined by the government policy from time to time.

4. Net Export: - It is the difference between exports and import.

1. Give reasons ‘state whether the following statements are true or false.

→ When MPC is Zero, the value of investment multiplier will also be Zero.

Ans- False, because when MPC=0

Value of investment multiplier is 1. K=1/1-MPC

→ Value of APS can never be less than Zero.

Ans- False, because APS is negative when there are dissaving.

→When MPC > MPS, the value of investment multiplier will be greater than 5.

Ans- True, if MPC is greater than 0.8 and false, if MPC > 0.5 but not greater than 0.8. Hence the

statement is falls under given terms & conditions.

→The value of MPS can never be negative.

Ans- True, since MPS =∆S/∆Y and with increase in income savings cannot decrease.

→ When investment multiplier is 1, then value of MPC is Zero.

Ans- True, because K=1/1-MPC = 1/1-0 =1

→The value of APS can never be greater than 1.

Ans- True, because savings can’t be greater than Income.

1. What is Investment Multiplier? Explain the relationship between investment multiplier and MPC?

Ans- investment Multiplier refers to the ratio of change in income and change in investment.

K= ∆Y/∆I or K= 1/ 1-MPC

It shows direct relationship b/w MPC and the value of Multiplier. Higher the proportion of increased income spend on consumption, higher will be the value of investment multiplier.

1. As a result of increase in investment by Rs 75 crores, national income rises by Rs. 300 crores. Calculate a marginal propensity to save (MPS)?

Ans- Multiplier (k) =∆Y/∆I

300 / 75 = 4

K = 1 / MPS,

4 = 1/ MPS

MPS = 0.25

1. What is natural rate of unemployment?

Ans- It refers to the rate of unemployment which always exists in the economy even when labour market is in a state of equilibrium. It occurs due to: (i) frictional changes (changes related to shifting from one job to the other), and (ii) structural changes (changes related to new production technology).

1. Distinguish between Autonomous Investment and Induced Investment.

Ans-

|  |  |  |
| --- | --- | --- |
| Basis | Autonomous investment | Induced investment |
| Meaning | It refers to the investment expenditure which is incurred by the Government. It is not influenced by the level of profits or income of an economy | It refers to the investment expenditure which is incurred by the enterprises. It is positively related to level of income. |
| Shape of curve | The autonomous investment curve is straight line parallel to income axis which shows that it remains same at all levels of income & output, & not influenced by change in income. | The induce investment curve is a positive slope which shows the positive relation between induced investment & level of income. |
| Factor affect | It is influenced by the change in population structure, natural calamities, change in technology & institution, war etc. | It is influenced by the level of income of an economy. Higher the income, greater is the induced investments, & vice versa. |

1. Explain the concept of Multiplier?

Ans- Multiplier the number by which change in investment must be multiple in order to determine the resulting change in income and output K = ∆Y / ∆I

It is the ratio between the change in income and the change in investment.

1. Find out multiplier when MPS (i) 0.4 (ii) 0.5 (iii) 0.8

Ans- (i) When MPS = 0.4 K = 1/MPS = 1/1.4 = 1/ 4/10 = 10/ 4 = 2.5

(ii)When MPS = 0.5 K = 1 / MPS = 1 / 1.5 = 1 / 5 /10 = 10 / 5 =2

(iii)When MPS = 0.8 K = 1 / MPS = 1 / 1.8 = 1 /8/ 10 = 10 / 8 = 5 / 4 = 1.25

1. In an economy, marginal propensity to save is 0.2.If Investment increases by Rs. 100 crores, calculate total increase in national income.

Ans- GIVEN

∆I = 100 Cr.

MPS = 0.2

THUS

K = 1/MPS = 1/0.2 = 5

K = ∆Y/∆I

5= ∆Y/100

∆Y =100 X 5 = 500

1. As a result of increase in investment, national income rises by Rs. 600 crores. If marginal propensity to consume is 0.75, calculate the increase in investment

Ans- GIVEN

∆Y = 600 Cr.

MPC = 0.75

THUS

K = 1/1- 0.75 =1/1-0.25 = 4

K = ∆Y/∆I

4= 600/∆I

∆I =600 X 4 = 125

1. Distinguish between APS and MPS. (2016, 2019, 2020)

Ans- Average Propensity to Save:-The average propensity to save (APS) is the ratio of total saving to total income and is expressed as:

APS = S/Y

Marginal Propensity to Save:-Marginal propensity to save (MPS) is the ratio of the change in total saving to change in total (national) income

MPS = ∆S/∆Y

1. If the saving function is S=-10+0.2Y, how the consumption function can be derived from consumption function. (2020)

Ans- we know that

Y= C+S

C=Y-S

C=Y-(-10+0.2Y)

C=Y+10-0.2Y

C=10+Y(1-0.2)

C=10+0.8Y

1. Define following:- (2019)
2. Ex-Ante Investment
3. Under employment equilibrium

Ans- Ex-Ante Investment:- Ex-ante Investment refers to desired investment (or planned investment) at different levels of income in the economy.

Under Employment Equilibrium:- Underemployment equilibrium refers to that situation in the economy when AS = AD (or S = I) but without fuller utilisation of resources. Accordingly, there is unutilised capacity or excess capacity (or unemployment) in the economy even in a state of equilibrium.

1. What is ex-ante consumption? Distinguish between autonomous consumption and induced consumption. (2018)

Ans- Ex-ante consumption refers to desired consumption (or planned consumption) at different levels of income in the economy.

Autonomous consumption refers to minimum level of consumption, even when income is zero.

Induced consumption changes as the level of income changes in the economy. It is determined by the marginal propensity to consume.

Consumption function: C = c + bY.

c= Autonomous Consumption

bY= Induced Consumption

1. The consumption function of an economy is: C = 40 + 0.8Y. Determine that level of income where average propensity to consume will be one. (2019)

Ans- APC is equal to 1 when consumption and income both are equal.

APC= 1 →C=Y

So Y= 40+0.8Y (putting Y in place of C because C=Y when APC=1)

Y-0.8Y=40

Y(1-0.8)=40

Y=40/0.2

Y= 200

At 200 income level APC will be 1.

1. Complete the following:-

|  |  |  |  |
| --- | --- | --- | --- |
| Income | MPC | Saving | APC |
| 0 | -- | -40 | -- |
| 100 | -- | -20 | -- |
| 200 | -- | 0 | -- |
| 300 | -- | 60 | -- |
| 400 | -- | 120 | -- |

ANS:-

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Income | ∆ Y | Saving | Consumption | ∆ C | MPC | APC |
| 0 | -- | -40 | 40 | -- | -- | -- |
| 100 | 100 | -20 | 120 | 80 | 0.8 | 1.2 |
| 200 | 100 | 0 | 200 | 80 | 0.8 | 1.0 |
| 300 | 100 | 60 | 240 | 40 | 0.4 | 0.8 |
| 400 | 100 | 120 | 280 | 40 | 0.4 | 0.7 |

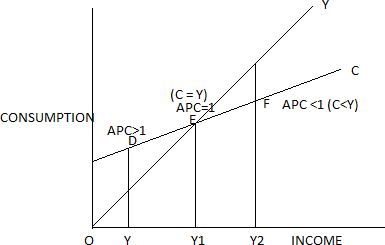
**Long Answer Type Questions**

1. Draw a linear consumption curve and show the points where the :-

APC = 1

APC > 1

APC < 1



→At OY level of income the consumption is more than income. Since APC = C / Y and here C > Y, that is why APC > 1

→At OY1 level of income the consumption is equal to income. Since APC = C / Y and here C = Y, that is why APC = 1

→At OY2 level of income the consumption is less than income. Since APC = C / Y and here C < Y that is why APC < 1.

1. Draw a linear consumption curve and derive a saving function from it. Explain the process.

OR (2016, 2017)

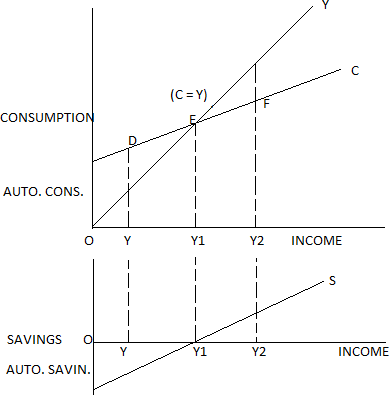
Explain the steps in deriving saving curve from consumption curve. Use diagram.

Ans- Process of derivation:-

Draw a consumption curve as per in the diagram and take the same distance of autonomous consumption for negative autonomous saving in diagram below the consumption curve.

At OY1 level of income Y = C at point E. so the saving at this income = 0. That is why saving curve intersect X- axis at OY1 level of income.

By stretching the same line towards right we get saving curve.



1. Why should planned savings and planned investment be equal at equilibrium level of income?

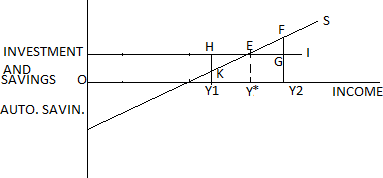
Explain with the help of diagram.

Ans- Equilibrium level of income is determined at a point where ex-ante or planned saving is equal to planned investment.

AS = AD

C + S = C + I

S = I



Equilibrium of the economy is at point E. The level of income is OY\*. Here the planned saving and planned invest are equal.

→if planned saving is more than planned investment (FG at OY2 level of income)

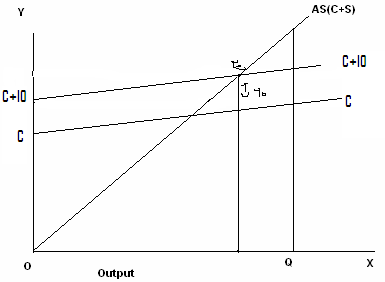
Excess of planned savings over planned investment means that the expenditure in the economy is less than what the producers had expected. This would result in undesired or unplanned buildup of unsold stock. To correct this situation producer will produce less. This will reduce level of output and income. Fall in income will result in fall in savings. These changes will continue till income falls to a level at which savings equal investment.

Just opposite will happen when planned investment is more than planned savings.

1. Explain Keynesian theory of output determination by consumption & investment approach.

Ans- The economy is in equilibrium at the-point where the C + I (AD) curve intersects the AS curve at point E. Because at point E, C + I curve (AD) is equal to the level of total output (AS) in the economy.

Equilibrium occurs when planned spending equals planned output. When planned spending is not equal to planned output, then output will tend to adjust up or down until the two are equal.

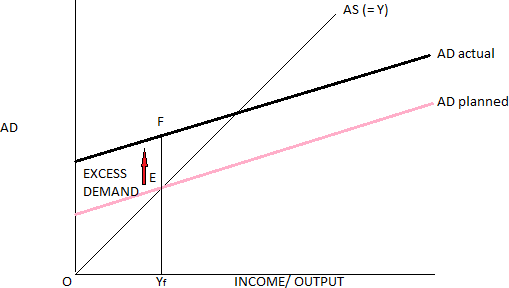


What happens if AS>AD: If AS > AD, the flow of goods and services in the economy tends to exceed their demand. As a result, the producers would have unwanted unsold stocks. To clear these excess stocks, the producers would plan a cut in production. This process would continue till AD=AS.

What happens if AS<AD: If AS < AD, the flow of goods and services in the economy tends to be less than their demand. As a result, the existing stocks of the producers would be sold out. To rebuild the desired stocks, the producers would plan greater production. This process would continue till AD=AS.

1. Explain the concept of Inflationary gap (excess demand). What is its impact on output, employment and price level in the economy? How Reverse Repo Rate can help in controlling the Inflationary gap? (2015, 2017,2018)

Ans:-Inflationary gap may be defined as an excess of aggregate demand over aggregate supply at the full employment level. The inflationary gap results in the rise in general price level which is called inflation. The amount by which aggregate demand exceeds the level of aggregate production corresponding to full employment level of national income is known as inflationary gap.



Inflationary gap occurs when people spend more money than the income generated. This results in unwanted and unplanned decrease in inventories of producers. They want to raise their production but cannot as the economy is already operating at full employment level of output (OYF). This results in inflationary gap (EF).

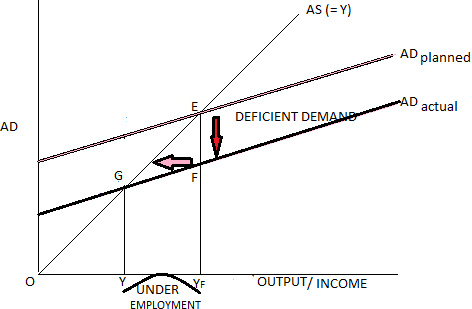
Use of Reserve Repo:- Central bank will increase the reverse repo rate which will attract commercial banks to deposit their reserve funds in safe hands of central bank. This will result in the flow of money from the economy towards the central bank. This will reduce the loaning capacity of banks hence the money supply and aggregate demand.

1. Explain the concept of deflationary gap (deficient demand). What is its impact on output, employment and price level in the economy? How it can be controlled by government spending and taxation policy? (2015, 2016, 2018)

OR

Is it possible that the economy operates at under employment equilibrium? Explain with the help of diagram. What role can the government play to achieve full employment?

Ans- Deflationary gap may be defined as an excess of aggregate supply over aggregate demand at the full employment level. The deflationary gap results in the decrease in general price level. The amount by which aggregate demand is less than the level of aggregate production corresponding to full employment level of national income is known as deflationary gap.



Deflationary gap occurs when people spend less money than the income generated. This results in unwanted and unplanned increase in inventories of producers. They will decrease their production hence output. The economy will be on new equilibrium point G showing under employment. Earlier the economy was operating at full employment level of output (OYF). The deflationary gap is shown by EF.

1. The Government should increase its expenditure on public programme.
2. The Government should decrease the taxes.

Both these measures will retain more money with the public which in turn will increase the aggregate demand in the economy.

1. How excess and deficient demand in an economy can be corrected through monetary policy?

Ans: (A) QUANTITATIVE CREDIT CONTROL: - (2016,2017,2018)

1. Cash reserve ratio: - It refers to the minimum percentage of a bank’ total deposit that is required to be kept with the central bank. During excess demand reserve ratio can be increased in order to control the money supply. On the other hand during deficient demand reserve ratio can be decreased.

2. Statutory liquidity ratio:- It refers to minimum percentage of total deposit which commercial banks required to maintain with themselves in the form of liquid assets. During excess demand reserve ratio can be increased in order to control the money supply. On the other hand during deficient demand reserve ratio can be decreased.

3.Bank Rate/Repo rate: - The bank rate refers to the rate of interest at which central bank gives loans and advance to the commercial banks. During excess demand bank rate is increased in order to control the money supply. On the other hand, during deficient demand, bank rate in decreased in order to increase the money supply.

4.Reverse Repo rate:- It refers to the rate at which commercial bank park their surplus money with the central bank. During excess demand bank rate is increased in order to control the money supply. On the other hand, during deficient demand, bank rate in decreased in order to increase the money supply.

5.Open market operators: - It refers to the purchase and sale of securities in the open market by the central bank. During excess demand, central bank sale the securities in the open market in order to control the money supply. On the other hand, during deficient demand, central bank buys the securities in the open market in order to increase the money supply.

(B) Qualitative or selected credit control: -

1. Change in margin requirements of loans: A margin is the difference between the amounts of the loan and market value of the security offered by the Borrower against the loan. During excess demand margin is increased in order to control the money supply. On the other hand, during deficient demand, margin is decreased in order to increase the money supply.

2.Moral suasion: This is a combination of persuasion and pressure that the central bank applies on the other banks in order to get them to fall in line with its policy.

1. An increase in Rs 200 crore in investment in an economy resulted in total increase in income of Rs 1000 cores. (2017)

Calculated the following:-

1. value of multiplier
2. MPC
3. change in saving (∆S)
4. change in consumption (∆C)

Ans- (iv) Multiplier(k) = ∆Y = 1000 = 5

∆I 200

(i) K = 1

1-MPC

5 = 1 [By cross multiplication]

1-MPC

5(1-MPC) = 1

5 – 5MPC = 1

5MPC = 5 – 1

5MPC = 4

MPC = 4/5 = 0.8

ii) Change in Saving (∆S)

∆S = MPC \* ∆Y [therefore MPC = 0.8 therefore, MPC + MPC = 1

∆S = 0.2 \* 1000 therefore MPC = 1 – MPC = 1 – 0.8 = 0.2]

∆S = 2 \* 1000 = 200

10

(iii) Change in Consumption (∆C) [check the answer

∆C = MPC \* ∆Y ∆Y = ∆C +∆S

= 0.8 \* 1000 1000 = 800 +200 ∆C = 8 \*1000 = 800 1000 = 1000

1. Briefly explains the multiplier process with the help of a numerical example. (2018, 2019,2020)

Ans. The working of multiplier process assumes the following process:-

∆I - ∆Y - ∆C - ∆Y

Change in investment causes change in income. As a result, there is change in consumption. Consumption expenditure of one person is an income of the other. Hence, change in consumption leads to change in income. This process continues till ∆C becomes zero.

EXPLANATION OF WORKING OF MULTIPLIER

An increase in the amount of investment lead to immediate increase in employment, increase in employment lead to cumulative increase in income, consumption, AD, investment, employment so on.

A given increase in investment therefore leads to cumulative increase in income.

Example: If MPC = 4/5=0.8

→Suppose there is initial investment increase of Rs 1000, which results in construction of a new building.

→Then the builder, the architect and laborers together will get an increase in income of Rs 1000.

→Since MPC is 4/5 they will together spend 800. (4/5 of 1000) on new consumption goods

→Producers of consumption goods will have increase of Rs 800 in their incomes they in turn will spend 640 (4/5 of 800)

→This process will go on till, consumption spending which goes on diminishing becomes nil,.

|  |  |  |
| --- | --- | --- |
| Round | Income | Consumption |
| 1 |  | 1000 |
| 2 | 1000 | 1000 X 0.8=800 |
| 3 | 800 | 800 X 0.8=640 |
|  | ‘ | ‘ |
| Nth | Rs 5000 | 1000 X [1/(1-0.8)] |

Change in income (∆Y) = 1000 X (0.8)0+ 1000 X (0.8)1+ 1000 X (0.8)2+ ----- 1000 X (0.8)n

It is a geometric progression of infinite terms with first term 1000 and constant ratio is 0.8

∆Y=(1000/1-0.8)

This implies ∆Y = (1 x ∆l)/1-MPC)

or

∆Y/∆l = {1/(1-MPC)} = K= multiplier

This table shows that if investment increases by 1000 cr.

Then National Income increases by 5000 cr.

That means national income increases by 5 times the investment Thus investment multiplier (K) here is 5

1. Suppose the consumption equals C= 40 + 0.75 y, Investment equals I = Rs 60 .

Find i) Equilibrium level of income

ii) The level of consumption at equilibrium

iii) level of saving at equilibrium. (2019)

Ans- i) Y= C + I AS = AD

Substituting the value of c and I we get

Y = 40 + 0.75Y + 60 Y= C+ I I=60

(Y-0.75Y)= 100

(1-0.75)Y=100

0.25Y =100

Y=100/0.25

Y=10000/25

Y=400

Equilibrium level of income = Rs. 400 cr.

ii) AS =AD

C= 40 + 0.75Y

Y = 400

C= 40 + 0.75(400) = 340

C=340

iii) Y= C + S

S= Y-C

S= 400 - 340 = 60

S= 60 crores

1. Discuss the adjustment mechanism in the following situations: (2019)

(a) Aggregate demand is lesser than aggregate supply

(b) Ex-ante investments are greater than ex-ante savings

Ans- (a) When AS > AD:-

→In this situation AS is more than AD. So there will be excess supply of goods in economy.

→Due to these producers will reduce the production.

→This will reduce output, income, employment in economy.

→Economy will attain the equilibrium.

(b) When I > S:- in this situation planned / ex-ante investment is greater than ex-ante savings.

→It means that consumers are planning to spend more on consumption then planned investment.

→So to fulfil the demand, producers will increase the output.

→It will increase the income level in economy.

→Due to increase in income, savings will increase and economy will reach to the equilibrium level.

1. The saving function of an economy is given as: S = (-) 10 + 0· 20Y. If the ex-ante investments are 240 crore, calculate the following: (2019)
2. Equilibrium level of income in the economy.
3. Additional investments which will be needed to double the present level of equilibrium income.

Ans- (i) Equilibrium will be attained at a point where

S =I

-10+0.2Y=240

0.2Y=240+10

Y =250/0.2

Y =1250

(ii)additional investment required to double the national income

For this first we have to calculate the value of multiplier

K=1/MPS

K=1/0.2

K=5

Now we know K=∆Y/∆I

5=2500/∆I (2500 is double of 1250 national income)

∆I=2500/5

∆I=500

1. An economy is in equilibrium. Calculate marginal propensity to consume. (2016)

National income = 1,000

Autonomous consumption expenditure = 200

Investment expenditure = 100.

Ans-we know AD/Y=C+I

C=c+bY

Y=c+bY+I

1000=200+b(1000)+100

1000-300=b(1000)

700/1000=b

b=0.7

**Unit 4**

**Government Budget**

**Objective Type questions**

1. Which of the following is not a non-tax revenue receipt? (2015)

(a) Interest receipts

(b) External grants

(c) Dividends and profits

(d) Disinvestment

1. Borrowings are equivalent to : (2015)

(a) Revenue deficit

(b) Primary deficit

(c) Fiscal deficit

(d) None of these

1. Primary deficit in a government budget is: (2015)

(a) Revenue expenditure - Revenue receipts

(b) Total expenditure - Total receipts

(c) Revenue deficit - Interest payments

(d) Fiscal deficit - Interest payments

1. Direct tax is called direct because it is collected directly from: (2015)

(a) the producers on goods produced

(b) the buyers of goods

(c) the sellers on goods sold

(d) the income earners

1. Fiscal deficit equals: (2016)

(a) interest payments

(b) borrowings

(c) interest payments less borrowing

(d) borrowings less interest payments

1. Disinvestment by government means: (2016)

(a) selling of its fixed capital assets

(b) selling of shares of public enterprises held by it

(c) selling of its buildings

(d) all the above

1. Primary deficit in a government budget will be zero, when \_\_\_\_\_. (2019)

(a) revenue deficit is zero

(b) net interest payments are zero

(c) fiscal deficit is zero

(d) fiscal deficit is equal to interest payment

1. Dividends received from Public Sector Undertakings (PSUs) are a part of the government's.(2019)

(a) non-tax revenue receipts

(b) tax receipts

(c) capital receipts

(d) capital expenditure

1. Which of the following is a capital receipt in the government budget? (2019)

(a) Income tax

(b) Interest receipt

(c) Sale of shares of a Public Sector Undertaking (PSU) to X Limited (Private Company)

(d) Dividends from a Public Sector Undertaking (PSU)

1. Disinvestment is a \_\_\_\_\_\_\_\_\_\_\_\_. (2020)

(a) revenue receipts

(b) capital receipts

(c) revenue expenditure

(d) capital expenditure

1. The estimated income receipts of the government in the budget of 2016-17 is Rs. 25,000 crores and its estimated expenditure is Rs. 27,500 crores. The budget of the government is:

(a) Balanced

(b) deficit

(c) Surplus

(d) None of these

1. Given the following data :

(i) Total budgeted expenditure          Rs. 1,000

(ii) Total budgeted revenue receipts  Rs. 700

(iii) Proceeds of Disinvestment        Rs. 150

(iv) Loans                       Rs. 150

The fiscal deficit equals

(a) Rs. 150

(b) Rs. 300

(c) Rs. 700

(d) Rs. 1000

1. In the context of government budget, which of the following statement is correct?

(a) Budget is a statement of expected annual receipts and expenditures of the government.

(b) It is a detail of actual receipts and expenditures of the government in a financial year

(c) It offers a detailed description of achievements of the government during the five year plans.

(d) It indicates BOP status of the domestic economy

**Very Short Answer Type Questions**

1. Revenue deficit can be estimated by using formula\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. (2020)

Ans- Revenue Deficit= Revenue Receipts – Revenue Expenditure.

1. Define tax. (2020)

Ans- A tax is compulsory payment made by an individual, household or a firm to the government without reference to anything in return.

1. What is a progressive tax?

Ans- Progressive tax is a tax that puts less real burden on the poor and more on the rich.

1. Define fiscal deficit. (2016, 2017, 2019)

Ans- fiscal deficit refers to total borrowings of government during a financial year.

1. What are capital receipts in a government budget? (2016, 2017)

Ans- Capital receipts are those receipts which either create a liability or reduce assets.

1. What is revenue deficit in government budget? (2016, 2017)

Ans- Revenue deficit is equal to the excess of total revenue expenditure over the total revenue receipts.

Revenue deficit = Revenue expenditure - Revenue receipts

1. What is meant by primary deficit? (2016, 2017, 2019)

Ans- Primary deficit is the difference between fiscal deficit and interest payment.

Primary deficit = Fiscal deficit - Interest payment

1. What is capital expenditure? (2016)

Ans- Capita l expenditure is an expenditure which leads to creation of assets or reduction in liabilities.

1. Define government budget. (2017)

Ans- Government budget is a statement of estimated receipts and expenditure of the government during a financial year.

1. State any two examples of non-tax revenue receipts of the government. (2019)

Ans- (i) Income from Public Enterprises

(ii) Grants/ Donations

**Short Answer Type Questions**

1. Distinguish between revenue expenditure and capital expenditure. (2016, 2020)

Ans-

|  |  |  |
| --- | --- | --- |
| Basis | Revenue expenditure | Capital expenditure |
| Meaning | Revenue expenditure does not impact on assets and liability status of the government.  Assets and liabilities are not increased or decreased. | Capital expenditure impacts on assets and liability status of the government.  Assets are raised or liabilities are decreased. |
| Nature | Recurring in nature | Non-recurring in nature |
| Example | Wage bill of the government.  Interest payments  Defence purchases. | Expenditure on machinery and equipment. Purchase of shares. |

1. Explain the role the government can play through the budget in influencing allocation of resources. (2015, 2016)

Ans-→Govt. tries to influence the allocation of resources by using budgetary tools.

→Govt. promotes the production of essential goods through subsidies and demotivates the production of hazardous goods through heavy taxes.

→Govt. gives incentive to the producers for investing in backward areas.

→Govt. tries to balance the regional disparities.

1. Explain how the government can use the budgetary policy in reducing inequality of income in the economy. (2015,2017,2019)

Ans- Equitable distribution of income and wealth is a sign of social justice which is the principal objective of any welfare state as in India. Distribution of income is improved in following ways:

→Govt. tries to reduce the income disparities by using budgetary tools.

→Govt. imposes tax on rich and gives subsidies to poor.

→Govt. directly fulfills the basic needs of poor like education, health, food etc.

→By this disposal income of rich reduces and living standard of poor improves.

1. Explain the role of government budget in fighting inflationary and deflationary tendencies. Or (2016)

Explain how government budget can be used to achieve price stability in the economy.

Ans- Economic stability stimulates the inducement to invest and increases the rate of growth and development.

→It implies control on price fluctuations.

→Govt. does this by tax and expenditure policies.

→During inflationary conditions govt. imposes high taxes and reduces expenses.

1. What is the difference between direct tax and indirect tax? (2016, 2017)

Ans-

|  |  |  |
| --- | --- | --- |
| Basis | Direct Tax | Indirect Tax |
| Meaning | It is the tax which is finally paid by the person on whom it is legally imposed. | It is the tax which is imposed on one person but is paid by another. |
| Shifting of burden | Tax burden cannot be shifted on other person. | Tax burden can be shifted on other person. |
| Example | Income tax, Corporation tax | GST, Sales tax , |

1. State whether the following statements are true or false. Support your answer with reason. (2019)

(a) Taxation is an effective tool to reduce the inequalities of income.

(b) Revenue deficit increases when government fails to recover loans forwarded to different nations.

Ans- (a) True, to correct inequality of income, the government pursues the policy of progressive taxation. Progressive taxation in India focuses on the equitable distribution of disposable income. Higher rate of taxation on higher incomes and lower rate of taxation on lower incomes reduces the gulf between disposable income of the rich and the poor.

1. False, Recovery of loans is a capital receipt because it leads to reduction in assets. It does not affect the revenue receipts.
2. Explain why public goods must be provided by the government?  
   Ans-→Public goods are those goods and services for which consumption by some individuals does not reduce the amount available to others.

→For example parks, roads, water, bridges, national defence etc.

→These goods are non-rival and non-excludable ones.

→People receive benefits from public goods but do not pay for them. Such a goods can only prepared by government.

1. Give the relationship between revenue deficit and fiscal deficit.  
   Ans-→Fiscal deficit is always a wider concept than revenue deficit.

→Revenue deficit is defined as the excess of government’s revenue expenditure over revenue receipts. In terms of formula:  
Revenue Deficit = Revenue Expenditures (RE) – Revenue Receipts (RR)

→In short, there will be revenue deficit in a government budget when revenue expenditure exceeds revenue receipts.

→Fiscal deficit is defined as the excess for all expenditure over total receipts net of borrowings.

→Initially, Fiscal deficit does not take into account all types of receipts. It does not take into account borrowings.

→ But finally they have to depend on borrowing to meet fiscal deficit.  
Fiscal Deficit = Revenue Deficit + Capital Deficit (Excluding Borrowing)- Borrowing  
= Net borrowing at home + Borrowing from RBI + Borrowing from abroad

**Unit-5**

**Foreign Exchange Rate and Balance of Payment**

**Objective Type Questions**

1. Foreign exchange rate refers to:-
2. The price of one currency in terms of gold in the domestic market.
3. The price of one currency in relation to other curries in the international money market
4. The Price of domestic currency in relation to foreign currency in the international money market.
5. Both B & C
6. Rate of exchange as determined by the government is called:- (2015)
7. Fixed exchange rate (C) Floating exchange Rate
8. Flexible Exchange rate (D) None of these
9. Under flexible exchange rate system, exchange rate is determined by the:-
10. Demand for foreign exchange (C) Supply of foreign exchange
11. Supply-Demand forces (D) Government
12. The exchange rate at which demand for foreign currency is equal to its supply is called:-
13. Equilibrium exchange rate (C) Floating exchange rate
14. Par exchange rate (D)Both A & C
15. Demand curve foreign exchange is:- (2015)
16. Negative related to the rate of exchange
17. Positively related to the rate of exchange
18. Proportionately related to the rate of exchange
19. Not related to the rate of exchange
20. When domestic currency loses its value in relation to a foreign currency in the international money market, it is a situation of:-

(A). Currency appreciation (B) Currency Depreciation

1. Currency devaluation (D)None of These
2. Currency appreciation takes place when:- (2016)
3. Domestic currency loses its value in relation to a foreign currency
4. There is an increase in the price of a foreign currency in terms of the domestic currency
5. There is a decrease in the price of a foreign currency in terms of the domestic currency
6. None of these
7. When US dollar exchange for Rs. 50, instead of Rs. 55 earlier, the domestic currency shows:-
8. Currency appreciation
9. Currency Depreciation
10. Currency devaluation
11. None of These
12. Which of the following is the source of demand for foreign exchange?
13. Imports (C) Foreign investment
14. Income receipts (D) Both A & B
15. Which of the following is the merit of flexible exchange rate system?
16. Optimum resource allocation (C) Market Stability
17. External shocks (D) Stable monetary policy
18. Which of the following is correct in case of managed floating?
19. Under this exchange rate does not remain within the desired limits
20. Market exchange rate is influenced by the sale purchase of foreign currency in the international money market.
21. Government does not intervene to manage the exchange rate in the system
22. All of these
23. Spot market deals in :-
24. Current transactions (C) Future transaction
25. Current as well as future transactions (D) Transactions meant for future delivery
26. Forward exchange rate is the rate:-
27. Which happens to prevail in the future
28. Which happens to clear the current transactions
29. At which market demand for foreign currency= market supply of foreign currency
30. At which forward transactions are to be honoured.
31. Other things remaining unchanged, when in a country the price of foreign currency rises, national income is:- (2015)

(A)Likely to rise (B) Likely to fall

(B)Likely to rise and fall both (D) Not Affected

1. Foreign exchange transactions dependent on other foreign exchange transactions are called
2. Current account transactions (B) Capital account transactions

(C) Autonomous transaction (D) Accommodating transaction

1. Foreign exchange transactions independent on other foreign exchange transactions are called
2. Current account transactions (B) Capital account transactions
3. Autonomous transaction (D) Accommodating transaction.
4. Balance of Payment:-
5. All monetary transactions of a country with rest of the world.
6. All economic transactions between residents of domestic country and residents of foreign countries.
7. All autonomous transactions of a country with rest of the world.
8. Both A & B
9. BOP accounts show:-
10. The export –import status of the foreign country.
11. The performance of domestic economy in relation to rest of the world.
12. Growth potential of the foreign economy.
13. All of these
14. A strategy of growth that favors domestic production of goods which are imported from the world is called:-
15. Import substitution (B) Export promotion

(C) Balanced growth (D) Balance of trade

1. The international monetary transactions occur due to:-
2. Export and import of goods
3. Domestic sale and purchase of real assets.

(C) International sale and purchase of real assets

(D) Both A & C

1. Merchandise Balance is
2. Export of goods-import of goods
3. Export of services-import of services
4. Investment income+ compensation of employee
5. None of these
6. Invisible are included in the :-
7. Balance of trade account BOP (B) Current account BOP

(C) Capital account BOP (d) none of these

1. Current account BOP records
2. Export and import of goods (B) Export and import of services

(C) Current transfer (D) All of these

1. Current account Balance=
2. Trade balance+ Goods and services balance
3. trade balance-Goods and services balance

(C) Trade balance+ invisible balance

(D) Trade balance-invisible balance

1. Capital account BOP records all such transactions which cause:-
2. Change in the ownership of assets between one country and rest of the world
3. Movement of goods between one country and rest of the world
4. Movement of services between one country and rest of the world
5. None of these
6. Export and import of capital goods between the countries is recorded in the:-
7. Balance of trade account BOP
8. Capital account BOP
9. Either A & B
10. Neither A nor B
11. Balance of payment is in equilibrium when:-
12. Current account balance+ capital account balance>Zero
13. Current account balance+ capital account balance<Zero
14. Current account balance+ capital account balance=zero
15. All of these
16. Accommodating items are:-
17. Meant to restore BOP balance
18. The cause of BOP imbalance
19. Meant to correct BOP imbalance
20. Both A & C
21. Autonomous items are classified as :-
22. Below the line items of BOP
23. Above the line items of BOP
24. On the line items of BOP
25. Both A & C

**Very Short Answer Questions**

1. What is meant by depreciation of domestic currency? (2017)

Ans- it refers to fall in value of domestic currency against foreign currency due to change in market forces.

1. What are fixed and flexible exchange rates? (2015, 2018, 2019)

Ans-Flexible Exchange Rate:-It is also known as floating /free rate of exchange. Flexible exchange rate refers to that rate which is determined by the supply and demand forces in foreign exchange market.

Fixed Exchange Rate:- Exchange rate is said fixed when rate of exchange is set and maintained by government or any institution on the behalf of government.

1. State any one source of supply of foreign currency for a country. (2019)

Or

State any two factors responsible for inflow of foreign currency

Ans- → Exports of Goods and services.

→Investments from Rest of the World

1. Name any two sources of demand for foreign exchange by households in an economy.(2019, 2020)

Ans- → Investment in Rest of the World

→Direct Purchases from Abroad

1. On what basis exchange rate is determined, according to Mint par Parity theory?

Ans- On the basis of Gold.

**Short Answer Type Questions**

1. Explain by giving examples, the distinction between depreciation and devaluation of domestic currency. (2017)

Ans- Depreciation of domestic currency: - depreciation of domestic currency means when domestic currency loses its value or decreases its value in relation to a foreign currency due to market forces. So more units domestic currency need to buy a unit of foreign currency.

For Example:- If Rs.70 =US $1

But Rs.75=US $1

Then Domestic Currency shows depreciation.

Devaluation of Domestic Currency: - Devaluation of the domestic currency means the value of domestic currency is deliberately reduced by Government by raising exchange rate. Devaluation leads to excess supply of foreign currency in the international money market.

For example Government of India reduce the value of Indian Currency against US $,Rs. 65 instead of Rs. 60. Then it is called Devaluation of domestic currency.

1. Discuss briefly the concept of managed floating system of foreign exchange rate determination. (2018, 2019 )

Ans- managed floating may be called as the mixture of both flexible and fixed exchange rate systems. Managed floating is an exercise of sale and purchase of foreign currency by the central bank, so that the exchange rate is managed within the desired limits.

When the exchange rate needs to be raised, the central bank increases its demand for US $ in the foreign exchange market.

When the exchange rate (say of US $) needs to be reduced, the central bank releases the supply of US $ in the foreign exchange market.

1. Why the demand for foreign currency fall and supply does rise when its price/ exchange rate rises? Explain. (2017)

Ans- A rise in the price of foreign currency implies that more units of the domestic currency are needed to buy a unit of foreign currency.

→It means now less units of foreign currency can be purchased through given amount domestic currency. So now demand for foreign currency falls. It makes Investment in rest of the world becomes more expensive, travelling to rest of the world more expensive, imports tend to fall, all of these leading to a fall in demand for foreign currency.

→at higher exchange rate more units of domestic currency can be received by selling foreign currency. So that now supplies of foreign currency rises. It induces FDI from rest of the world, induces exports, due to this supply of foreign currency increases.

1. Distinguish between appreciation of home currency and depreciation of home currency. (2019)

Ans-

|  |  |  |
| --- | --- | --- |
| Basis | Appreciation | Depreciation |
| Meaning | It is a situation of a fall in exchange rate. | It is a situation of a increase in exchange rate. |
| Causes | Increase in supply of foreign exchange OR Decrease in demand for foreign exchange. | Decrease in supply of foreign exchange OR Increase in demand for foreign exchange. |
| Example | Exchange rate falls from (1 $ = 60 Rs.) to (1 $ = 50 Rs.). | Exchange rate increases from (1 $ = 60 Rs.) to (1 $ = 70 Rs.). |

1. "Indian Rupee plunged to all time low of 74.48 against the US Dollar ($)." -The Economic Times

In the light of the above report, discuss the impact of the situation on Indian imports. (2019)

Ans- because of fall in value of domestic currency, rupee got depreciated against US Doller.

It means now exchange rate increases. It means to purchase a foreign product we have to pay more rupees. So our imports become costlier and tend to reduce.

1. Distinguish between Spot and forward market.

Ans.

|  |  |
| --- | --- |
| Spot Market | Forward Market |
| 1. It handles current transactions | It handles transactions meant for future delivery. |
| 1. Rate of exchange determined on spot rate of exchange | Rate of exchange determined in this market called contracted exchange rate. |
| 1. It does not allows hedging | It allows hedging. |

1. Where will sale of machinery to abroad be recorded in the balance of payment accounts? Give reasons.

Ans- Sale of machinery to abroad is accounted under trade balance or current account BOP. Because sale and purchase of machinery is a part of the merchandise, and all merchandise is recorded as a trade balance in the current account BOP.

1. Name the broad categories of transactions recorded in the current account of the balance of payments accounts. (2016)

Ans. Current account records receipt and payment of foreign exchange of export and import of goods and services and current transfer. Main Current account transactions are

→ Export and Import of Goods or Visible

→ Export and Import of Services or Invisible (Factor services and Non-factor services)

→ Unilateral Transactions

1. Name the broad categories of transactions recorded in the “capital account” of the balance of payments accounts. (2016)

Ans- Capital account records receipts and payments of such transactions which reduce or raise asset-liability of a country in relation to rest of the world. In other words capital account transactions lead to future claims. Main transactions related to Capital Account are:-

→ Foreign Investment (FDI, FII)

→ NRI deposits

→ Flow of Banking Capital

→ Commercial Borrowings

1. Distinguish between Autonomous transaction and accommodating transactions of balance of payment. (2018, 2019)

Ans-

|  |  |
| --- | --- |
| Autonomous items | Accommodating Items |
| 1. Autonomous Items refer to such BOP transactions which are done for earning profit | Accommodating items are free from profit motive. |
| 1. These items can cause BOP imbalance | These items are meant to correct BOP imbalance |
| 1. Autonomous Items may involve the movement of goods and services | Accommodating items do not involve the movement of goods and services |
| 1. Autonomous items are classified as “above the line” Items in BOP | Accommodating items are classified as below the line items of BOP |

1. Distinguish between Current account and Capital Account. (2017,2019)

Ans-

|  |  |  |
| --- | --- | --- |
| Basis | Current Account | Capital Account |
| Meaning | Current account records receipt and payment of foreign exchange of export and import of goods and services and current transfer | Capital account records receipts and payments of such transactions which reduce or raise asset-liability of a country in relation to rest of the world. |
| Impact on assets and liability | Current account transactions do not give rise to future claims or do not impact asset-liability of the country in relation to rest of the world. | Capital account transactions lead to future claims. |
| Example | Export and Import of Goods or Visible  Export and Import of Services or Invisible | Foreign Investment (FDI, FII)  NRI deposits |

1. In which sub-account and on which side of balance of payments account will foreign investments in India be recorded? Give reasons (2017)

Ans-Foreign investments in India will be recorded in the capital account of the balance of payments account.

It is reflected in the capital account, as it impacts change in the ownership of assets. It does not involve movement of goods and services across the borders. Also foreign investments in India will be recorded with + sign or in credit side in the balance of payment account because it leads to the receipt of foreign exchange from rest of the world.

1. What will be the effect of foreign investment in India on exchange rate? Explain (2017, 2018)

Ans- As a result of foreign investment in India, supply of foreign currency increases. Accordingly supply curve shifts to the right side. This causes a fall in equilibrium exchange rate from at Supply of foreign exchange= Demand of Foreign Exchange. This is situation of appreciation of the domestic currency.

1. Give the meaning of balance of trade and balance on current account of balance of payments accounts. (2016)

Ans. Balance on trade account includes only merchandised or material goods of trade. It is defined as the difference between export of material goods and import of material goods.

Balance of trade account= Export of material trade - imports of material goods

While Balance of current account includes export and import of visible and invisible items. Invisible items include services and current transfers.

Current Account balance= balance of trade account + Balance of Invisible account + current transfer.

**Unit 6**

**Chapter 1**

**Indian Economy on the eve of Independency**

**Objective Type Questions**

1. The Indian economy on the eve of the independence was:
2. Developed (b) underdeveloped (c) stagnant (d) both
3. Decay of handicrafts was ca used by:
4. British tariff pol icy (b) competition from machine-made products (c) change in the patterns of demand (d) all of these
5. High infant mortality indicates:
6. Extreme poverty (b) poor healthcare (c)less education (d) none of these
7. Gender-bias in the society on eve of independence was indicated by:
8. Mortality rate (b) literacy rate (c) death rate (d) life expectancy
9. During colonial period, India's demographic profile showed:
10. high birth rate (b) high death rate (c) high infant mortality (d) all of these
11. On the eve of independence, bulk of the population was engaged in:
12. Agriculture sector (b) trade and commerce (c) mining sector (d) industrial sector
13. Which sector was the major contributor to GDP of the country as well as the biggest employer on the eve of independence
14. Agriculture (b) Industry (c) Services (d) Manufacturing
15. Name the economist whose estimates on GDP and per capita income during the British rule were considered very significant
16. William Digby (b) Dr. V.K.R.V. Rao (c) DadabhaiNaroji (d) Findlay Shirras
17. Which industry suffered a major setback due to partition of India
18. Jute (b) Silk (c) Iron and steel (d) Cotton
19. The opening of the Suez Canal in 1869

(a) Adversely affected the monopoly control of India’s foreign trade

(b) Reduced the cost of transportation of goods between India and Britain

(c) Enhanced inter-state trade in India

(d) Reduced the export of goods from India to Britain

1. The motive of British government behind de-industrialisation was

(i) To get raw material from India at cheap rate

(ii) To sell British manufactured goods in Indian market at high prices

(iii) To focus on development of agriculture

(iv)To get finished products from India at cheap rate

(a) Both (i) and (ii) above

(b) Both (ii) and (iv) above

(c) Only (iii) above

(d) Only (iv) above

1. The decline of handicraft industries led to

(i) Large scale unemployment

(ii) Encouraged the import of manufactured goods from Britain

(iii) Development of capital goods industries in India

(iv) Encouraged the export of manufactured goods to Britain

(a) (i), (ii) and (iii) above

(b) (i), (iii) and (iv) above

(c) Both (i) and (ii) above

(d) Both (i) and (iv) above

1. On the basis of the workforce engaged in various sectors in pre-independent India, the following are ranked from the highest to the lowest? (Choose correct alternative)

(a) Primary sector, Secondary sector, Tertiary sector

(b) Tertiary sector, Primary sector, Secondary sector

(c) Secondary sector, Tertiary sector, Primary sector

(d) Primary sector, Tertiary sector, Secondary sector

1. Which of the following statements is not true about the foreign trade in context of Indian economy during the British rule?

(a) India became exporter of primary products and an importer of finished consumer goods and capital goods from Britain.

(b) India traded with many countries of the world despite discriminatory tariff policy pursued by the British government.

(c) India generated huge export surplus.

(d) Britain had a monopoly control over India’s foreign trade.

1. Which of the following statements is not true about the Indian economy during the British rule

(a) Slow growth of agricultural and industrial sector

(b) The area of operation of public sector was very limited

(c) Drain of India’s wealth despite export surplus.

(d) During the colonial period, the service sector accounted for the largest share of workforce.

**Very Short Answer Questions**

1. What is a stagnant economy?

Ans- A stagnant economy is an economy in which there is little or no scope of GDP growth.

1. What do you mean by commercialisation of agriculture?

Ans- Commercialisation of agriculture refers to a shift from cultivation for self-consumption to cultivation for the market.

1. Define subsistence agriculture?

Ans- Subsistence agriculture is a form of farming in which only subsistence crops are grown to provide for the basic needs of the family.

1. What do you mean by Population Census?

Ans- Population census is a detailed estimation of population size, along with a complete demographic profile of the country.

1. What was the motive behind the systematic de-industrialisation by the colonial government in India?

Ans-to make India a source of raw material and a market for British factory made products.

1. What does the term ‘export surplus’ imply?

Ans-it means excess of export revenue over import payments.

1. What do you understand by the drain of India’s wealth (or economic drain) during the colonial period?

Ans- economic drain refers to outflow of resources from India to Britain.

1. Why 1921 was the year of Great Divide with regard to the growth of population in India?

Ans- because only after 1921 that the population recorded a consistent rise.

**Short Answer Questions**

1. How Railways moderated the impact of famines during the colonial period?

Ans- Railways facilitated the movement of food grains from the surplus zones or from the government warehouses to the areas afflicted with famines. By this the impact of famines was moderated.

1. How did discriminatory trade pol icy contribute to the success of industrial revolution in Great Britain?

Ans- it happened in two ways:

(i) Low duty on the import of British industrial goods into India led to the growth of domestic demand for these goods.

(ii) Low duty on the export of raw material from India ensured availability of low-cost inputs for the British industry.

1. What were the main causes of India's agricultural stag nation during the colonial period?

Ans- Following causes are responsible for it:-

(i) Gulf between the owners of the soil and the tillers of the soil

(ii) Land Revenue System under the British Raj

(iii) Forced commercialisation of agriculture.

1. What were the main features of Indian agriculture during British rule?

Ans- (i) Low production and low productivity

(ii) High degree of uncertainty, owing to huge dependence on rainfall

(iii) Dominance of subsistence farming

(iv) Small and fragmented holdings

(v) Forced Commercialisation of Agriculture

1. What were the main causes of Decay of Handicraft industry in India?

Ans- (i) Discriminatory Tariff Policy of the State

(ii) Competition from Machine-made Products

(iii) Disappearance of Princely Courts who encouraged local artisan

1. Were there any positive contributions made by the British in India?

Ans- (i) Commercial outlook of the farmers started replacing subsistence-based production decisions of the farmers. (ii) Opportunities of employment were generated through infrastructural growth. (iii) Famines were effectively controlled through the development of rapid means of transport. (iv) There was a significant shift from barter system of exchange to monetary system of exchange. (v) Efficient system of administration emerged.

1. Describe the state India’s foreign trade at the time of independence.

Ans- (i) India become Net Exporter of Primary Products and Importer of Finished Goods.

(ii) More than 50 per cent of India's foreign trade was directed towards Great Britain.

(iii) Trade surplus was not used for growth and development of the country.

**Chapter 2**

**Development Policies and Experience (1947-1990)**

**Objective Type Questions**

1. When was Planning Commission established?
2. 1947 (b) 1948 (c) 1950 (d)1951
3. Directive planning is pursued under:
4. Capitalist economy (b) mixed economy (c) socialist economy (d) none of these
5. Natural rate of unemployment is consistent with the situation of:
6. full employment (b) underemployment (c) over employment (d) structural unemployment
7. Which of the following is correct about the planning in India?

(a) Mixed economy has been the framework of planning in India

(b) The duration of the Twelfth Five Year Plan was 2012-17

(c) Planning in India started with a heavy reliance on the public sector

(d) All of these

1. Price Support Policy focuses on:

(a) Stability of farm output

(b) Stability of income from farming

(c) High price of farm output

(d) Stability of farm productivity

1. Investment limit for small scale industries is:
2. 1 crore (b) 2 crore (c) 3 crore (d) 5 crore
3. Which of the following were the factors that necessitated the direct participation of the state in industrial development of the country?

(a) Lack of capital

(b) Low inducement to invest on part of private investors

(c) Growth with social justice

(d) All of these

1. The basic idea of industrial licensing pol icy was to:

(a) Ensure environment-friendly investment

(b) Promote private investment in the economy

(c) Encourage industry in the backward regions of the country

(d) None of these

1. A strategy to earn foreign exchange by promoting domestic exports and making domestic industry competitive in the international market is called:

(a) Inward looking strategy

(b) Outward looking strategy

(c) Import substitution strategy

(d) None of these

1. The rise in percentage shares of secondary and tertiary sectors in GDP and the corresponding fall in the percentage share of the primary sector is called:
2. Economic calibration (b) industrialisation (c) structural transformation (d) economic adjustment
3. Who is known as the architect of Indian Planning?

(a) Jawaharlal Nehru (b) Dr. B.R. Ambedkar (c) P.C. Mahalanobis (d) DadabhaiNaoroji

**Very Short Answer Questions**

1. What is economic planning?

Ans- Economic planning refers to full and effective utilisation of resources in order to nation’s priority to achieve specific goals.

1. What is full employment?

Ans- Full employment refers to a situation when all those who are able to work and are willing to work at the existing wage rate are getting work.

1. What is meant by disguised unemployment?

Ans- a situation when more persons are engaged in farming than what is required to get the maximum output from a given piece of land.

1. What is cooperative farming?

Ans- Cooperative farming is a system wherein farmers voluntarily pool their resources for cultivating the soil. They sell their output collectively.

1. Define the pol icy of import substitution.

Ans- It refers to the policy of domestic production of goods which the country is importing from rest of the world. It focuses on saving foreign exchange.

1. What is the concept of 'protection' in the context of international trade.

Ans. It refers to the policy of protecting domestic industry from international competition in the domestic market. Domestic market for the foreign goods is restricted through high import duty.

1. What is export promotion?

Ans- Export promotion is a strategy to earn foreign exchange by promoting domestic exports and making domestic industry competitive in the international market.

1. When NITI aayog was is constituted?

Ans- “National Institution for Transforming India”(NITI aayog) is constituted on January 1 2015.

**Short Answer Question**

1. Explain significance of foreign trade in the context of growth and development of an underdeveloped economy like India?

Ans-(i) Foreign trade offers a huge market for the goods produced in the domestic economy of less developed countries.

(ii) If offers opportunities of investment in the international market.

(iii) For the less developed countries, foreign trade facilitates specialisation in the production of those goods in case of which they enjoy comparative cost advantage.

(iv) Foreign trade is a source of foreign exchange,

(v) Foreign trade facilitates the import of high-tech plant and machinery which the less developed countries must obtain to trigger their GDP growth.

1. Explain how import substitution can protect domestic industry.

Ans-Import substitution pol icy aims at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in the country itself. This policy restricts imports and, therefore, protects the domestic firms from foreign competition.

1. Explain the importance of small-scale industry in the growth process of the Indian economy.

Ans-(i) It generates more employment as it is labour-intensive.

(ii) It promotes balanced growth as it shows locational flexibility.

(iii) It promotes equity as it minimises concentration of economic power.

1. Why direct participation of the state in industrial development of the country after independence was required.

Ans- (i) the industrial development needed a big push of investment, which the private entrepreneurs could not afford.

(ii) There was low inducement to invest, owing to limited size of the market

(iii) The growth process placed high priority on socialistic pattern of the society (growth with social justice).

1. Explain the statement that Green Revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

Ans-With the use of High Yielding Variety (HYV) seeds, the farmers were able to produce large quantity of food grains which were fa r more than their requirement for self-consumption. Those surplus quantities were purchased by the government to maintain the buffer stock to be used at times of food shortage due to natural calamities or due to war. Therefore, the Green Revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

1. Write any 3 limitations of Green Revolution in India.

Ans-(i) Spread of Green Revolution has not been uniform across all regions.

(ii) Increase in inequality of distribution on income and wealth among farmers.

(iii)Applicable on limited crops (rice and wheat only)

1. Write main merits of Green Revolution in India.

Ans-(i) Shift from Subsistence Farming to Commercial Farming

(ii) Self-sufficiency in Food grain Production

(iii) Huge increase in productivity

1. What is import substitution? How it can protect domestic industries? (2020)

Ans- Import substitution implies domestic production of those goods which the economy has been importing from rest of the world. It provides Protection to the domestic industry through import restrictions and import duties in the area of international trade.

(i)High taxes were imposed on imports of goods. So imported products become costlier as compare to domestic products.

(ii)Maximum quantity of goods imported was fixed through quotes.

1. Discuss any two causes of India’s agricultural stagnation during the colonial period. (2020)

Ans-(i) Deficiency of Finance: Deficiency of finance is another major problem facing Indian agriculture. For bulk of their financial needs, the small farmers depend upon non-institutional sources, including 'mahajans', moneylenders and the landlords. They charge very high rate of interest. Institutional finance (referring to finance by the banking and other financial institutions) is extremely scarce in relation to needs of the farmers.

(ii) Small and Scattered Holdings: Holdings in India are not only small, but scattered as well. Small holdings do not allow the use of modern technology. Scattered holdings increase the cost of management. This contributes to backwardness of farming and poverty of the farmers.

1. What is industrial licensing? How does it impact al location of resources?

Ans- A licence was needed not only for establishing a new enterprise, but also for expanding production capacity of the existing ones. This was to regulate the allocation of resources to different uses. The focus was to promote social welfare rather than private profits.

Licensing policy was to encourage industry in backward regions of the country. This was to promote regional equality. Licence was provided for the investment in backword areas. ? So that backward areas can develop, employment opportunities can increase, poverty can reduce etc.

**Long Answer Questions**

1. Explain the main goals of economic planning.

Ans-(i) Self-sufficiency: It refers to the state of being able to provide essential goods (particularly foodgrains) without the help of others. India wanted to be self-sufficient in food grain production to avoid the uncertainties of supplies from rest of the world.

(ii) Modernisation: It refers to updating and adoption of modern technology in the process of growth.it also includes issues like empowerment of women so that (like men) they also participate in the process of production and contribute to the process of economic and social prosperity.

(iii) Equitable Distribution or Equity: Benefits of growth must spread across all sections of the society, so that the distribution of income becomes equitable. Equitable distribution of income implies social equality and this is one of the principal objectives or goals of planning in India.

(iv)Full Employment: The objective of full employment focuses on 'inclusive growth'. It implies that: (i) more and more people should participate in the process of growth, and (ii) benefits of growth must be shared across wider sections of the society.

(v) GDP Growth: Increase in GDP (gross domestic product) implies increase in the level of output in the economy. It implies an increase in the flow of goods and services in the economy. Planning in India is to ensure that natural resources are fully explored and production technology is continuously improved. So that, GDP growth achieves a momentum.

1. What were the main technical reforms made in Indian agriculture?

Ans-(a) Use of HVY Seeds- HYV seeds ( especially relating to wheat, bajra, rice, maize, jowar, and cotton) have led to a substantial rise in crop productivity. (b) Use of Chemical Fertilizers- Chemical fertilisers are being increasingly used to enhance productivity.

(c) Use of Insecticides and Pesticides for Crop Protection- Steps have been initiated to protect crops against diseases and insects by using insecticides and pesticides.

(d) Scientific Farm Management Practices (like selection of crops and their quality, preparation of soil, rotation of crops, selection of seed

(e) Mechanised Means of Cultivation- use of modern machinery in agriculture like tractor, thresher etc

1. What was the main land or institutional reforms made in Indian agriculture?

Ans- (a) Abolition of Intermediaries- Intermediaries popularly known as zamindars have been abolished. Ownership rights have been conferred upon those who actually cultivate the soil.

(b) Regulation of Rent- To put an end to excessive and illegal extortions from the cultivators, rents have been fixed. For this government made several provisions.

(c) Consolidation of Holdings- To reducing fragmentation, steps have been initiated for the consolidation of holdings. Consolidation is a practice to allot land to the farmer at one place as a replacement for his scattered holdings here and there. It saves the cost of cultivation.

(d) Ceiling on Land Holdings and Redistribution of Surplus Land- : With a view to promoting equality in the distribution of land, ceiling has been imposed on the holding size.

(e) Cooperative Farming- Cooperative farming is encouraged to enhance bargaining power of the small holders. Together they can buy inputs at a lower price and sell their produce at a higher price.

1. What were the main general reforms made in Indian agriculture?

Ans- (a) Expansion of Irrigation Facilities- With a view to ra1smg productivity in agriculture, irrigation facilities have been expanded. Several major and minor irrigation projects have been launched across different parts of the country.

(b) Provision of Credit made easier for farmers- : Cooperative Credit Societies have been set-up to provide credit to the farmers at low rate of interest. Regional Rural Banks have been established to further enhance credit facilities to the farmers.

(c) Regulated Markets were stablished- Regulated markets have been established across all parts of the country. This is with a view to offering remunerative price to the farmers and protects them against exploitation by the middlemen.

(d) Price Support Policy (MSP) was started- Under this policy, government assures a minimum support price (MSP) to the farmer for his produce so as to protect him against uncertainties of the market.

**Chapter 3**

**Economic Reforms 1991**

**Objective type questions**

1. Liberalisation implies:
2. Greater role of public sector
3. reduction in governments control over the private sector
4. free economy with no controls
5. none of these
6. Which of the following is not a component of privatisation?
7. Contraction of public sector
8. Disinvestment in public sector enterprises
9. Sale of public sector's share
10. Purchase of industrial shares by the government
11. Which of the following is the strategy to promote globalisation of the India economy?
12. Partially convertibility
13. Reduction in tariffs
14. Increase in equity limit of foreign investment
15. All of these
16. The thrust of the New Economic Policy (NEP) was \_\_\_\_\_\_\_\_\_\_\_\_\_ . (Choose the correct alternative)
    1. To create a more competitive environment in the economy and removing the barriers to entry and growth of firms.
    2. To maintain sufficient foreign exchange reserves and keep the rising prices under control.
    3. To improve the efficiency of the economy and increasing its internal competitiveness by removing the rigidities inVarious segments of the Indian economy.
    4. To meet the challenges like unemployment, poverty and population explosion.
17. In the context of Indian experience, controls were imposed by the government with a view to:
    1. checking the growth of private monopolies
    2. minimising the hold of large industrial houses on the financial resources of the country
    3. both (a) and (b)
    4. none of these
18. Liberalisation of the economy under the new economic pol icy changed the role of RBI

(a) from a 'regulator' to 'facilitator' of the financial sector

(b) from a 'controller' to 'manager' of the government debt

(c) both (a) and (b)

(d) none of these

1. In 1991, an immediate measure to resolve the balance of payments crisis was:
   1. To free the determination of rupee value in the foreign exchange market from government control.
   2. Devaluation of rupee against foreign currencies.
   3. Removing the trade barriers –quotas and tariffs.
   4. Simplification of export and import procedures.
2. Goods and Services Tax Act, 2016, which came into effect from July 2017, is expected to: (Choose the correct alternative)
   1. Generate additional revenue for the government.
   2. (b) reduce tax evasion.
   3. Create ‘one nation, one tax and one market’.
   4. (d) All of the above.
3. Since 1991, there has been a continuous reduction in income tax rates because: (Choose the correct alternative)
   1. It is felt that high rates of income tax were an important reason for tax evasion.
   2. It is widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income.
   3. Both (a) and (b)
   4. Proceeds of corporation tax and indirect taxes are very high.
4. Liberalisation of trade and investment regime was initiated to: (Choose the correct alternative)
   1. Increase international competitiveness of industrial production and also foreign investments and technology into the Economy.
   2. Promote the efficiency of local industries.
   3. Adopt the modern technologies.
   4. All of the above

**Very short answer Questions**

1. Define devaluation.

Ans. Devaluation refers to policy action of the government of a country to lower the value of domestic currency in relation to other currencies of the world.

1. What is disinvestment?

Ans. Disinvestment refers to selling off share capital of PSUs (public sector undertakings) to the private entrepreneurs.

1. What is Globalisation? Define.

Ans-Globalisation may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy.

1. What is Privatisation?

Ans- It implies gradual withdrawal of government ownership/management from the public sector enterprises.

**Short Answer Questions**

1. The demonetisation of currency undertaken by the Government of India as on November 8, 2016 had an adverse impact on the economic activities.” Do you agree with the statement? Give reason in support of your answer.

Ans- The given statement is not totally correct.

The shortage of currency in circulation had an adverse impact on the economic activities. There were long queues outside banks and ATM booths. However things improved with time and normally returned.

This move has had many positive impacts on the Indian economy such as:

1. It improved tax compliance as a large number of people were bought in the tax ambit. Tax evasion will result in Financial penalty. It put a curb on black money and corruption.

(ii) The savings of an individual were channelized into the formal financial system. As a result, banks have more Resources to provide more loans at lower interest rates.

1. Fiscal deficit leads to price spiral. Explain.

Ans- fiscal deficit is financed by the government by way of borrowing from the RBI. It leads to increase in the supply of money in the economy. And higher the supply of money, higher is the price spiral.

1. India is called outsourcing destination of the world. Explain main causes of it. (2020)

Ans-outsourcing refers to a system of hiring business services from the outside world. Factors which are significantly important in the context of India emerging as a favourite destination for outsourcing. These are:

1. India offers an abundant supply of labour at a low wage rate
2. India has achieved a revolutionary breakthrough in the IT industry, which is the basic ingredient of outsourcing.
3. What were the main causes of implementing economic reforms?

Ans-(i)Inflationary conditions due to increase in petroleum prices in international market & borrowings by govt.

(ii)fiscal deficit was increased to 8% of GDP.

(iii)fall in foreign exchange reserves due to Decline in availability of SOFT LOAN, Fall in Remittances from rest of the world, Fall in FDI

**Long Answer Questions**

1. Explain main industrial reforms made by government under liberalisation.

Ans- ( i) **Abolition of Industrial Licensing**: In July 1991, a new industrial policy was announced. It abolished the requirement of licensing except for the following five industries: (a) liquor, (b) cigarette, (c) defence equipment (d) industrial explosives, and (e) dangerous chemicals.

( ii) **Contraction of Public Sector**: Under the new industrial policy, number of industries reserved for public sector was reduced from 17 to 8. In 2010-11, the number of these industries was reduced merely to two: (i) Atomic energy, and (ii) Railways.

( iii**) De-reservation of Production Areas**: Many production areas which earlier were reserved for SSI (small-scale industries) were dereserved.

(iv)**Freedom to Import Capital Goods**: Liberalisation also implied freedom for the industrialists to import capital goods with a view to upgrading their technology.

1. Explain main financial reforms made by government under liberalisation.

Ans-(i)Changing role of RBI from **‘Regulator’ to ‘Facilitator’**. It implies little freedom to commercial banks.

(ii) Commercial Banks can determine interest rates by themselves.

(iii)Government granted permission of establishment of private banking companies.

(iv)FIIs like mutual funds, pension funds etc were permitted to invest in India.

1. Explain main fiscal reforms made by government under liberalisation.

Ans- (i)Rationalization of Direct Tax Rates [earlier tax rates were up to 90% . After 1991 tax rates were ceiled at 30%]

(ii)Introduction of GST in the field of Indirect Tax Reforms. It is simplified tax structure, as it is a one tax for all the indirect taxes, and it is a uniform tax across all parts of the country

(iii)Enactment of ‘Fiscal Responsibility and Budget Management act 2003.

(iv)Simplification of tax return filing.

1. What were the main external sector reforms made by government?

Ans-(i)Determination of Exchange rate through market forces .it means free play of demand and supply of foreign exchange.

(ii)Tariff restrictions have been considerably reduced, rather withdrawn from many items of export and import.

(iii)Market competition has replaced the policy of quotas and tariffs.

1. Devaluation of the Indian rupee against foreign currencies to increase exports and earn more foreign exchange.

**UNIT-2**

**CHAPTER:- POVERTY**

**Read the following statements- Assertion (A) and Reason(R). Choose one of the correct alternatives given below:**

1. **Assertion (A)**Mr. X is relatively richer than Mr. Y. But both can be absolutely poor.

**Reason (R**) Mr. X may have higher income than Mr. Y. But, both X and Y may not have enough income to buy the essentials of life. So that, both are absolutely poor.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)**Inflation is the cause of poverty.

**Reason (R**) Inflation (price spiral) erodes real income of the people. Other things remaining constant, price spiral may push certain people below the poverty line.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)**Capital formation is the key to eradicate the poverty in India.

**Reason (R**) Lack of capital implies lack of production capacity.- Low production capacity implies low opportunities of employment. - Low level of employment implies high level of poverty.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)**Progressive taxation helps reduce poverty.

**Reason (R**) Progressive taxation implies higher tax burden on the rich, and lower tax burden on the poor. It narrows down 'economic divide' between the rich and the poor. Accordingly, relative poverty is reduced.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)**Poverty can reduce even when income of the poor does not rise.

**Reason (R**) The poor can be offered essentials of life at subsidised prices

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: b

1. **Assertion (A)**Eradication of poverty through GDP growth is only a short period remedy.

**Reason (R**) Ans. False. Eradication of poverty through GDP growth is a long period remedy, not a short period remedy. Beca use, GDP growth is a long-drawn process. Also, GDP growth helps combat poverty only when it is accompanied with higher level of employment.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: d

1. **Assertion (A)**Migration lowers poverty.

**Reason (R**) People migrate to those areas which offer better opportunities of employment. Getting employment or getting better employment leads to improvement in the quality of life. It may help people shift above the poverty line.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

**Multiple Choice Questions Choose the correct option:**

1. Which of the following is prominent in the Indian economy? a) Relative poverty (b) Absolute poverty **(c) Both (a) and (b)** (d) None of these

2. A cut-off point (in terms of per capita expenditure) dividing people as poor and non-poor indicates the number of those who are:

(a) relatively poor (c) below the poverty line (b) absolutely poor **(d) both (b) and (c)**

3. In India, absolute poverty is measured with reference to:

**(a) poverty line** (b) GDP (c) per capita income (d) unemployment

4. Which of the following is a reason of poverty in India?

(a) Low rate of growth (b) Inflation (c) Inadequacy of capital **(d) All of these**

5. Poverty continuous to persist in India, because of:

(a) rising prices (b) rising population (c) lack of opportunities of employment **(d) all of these**

6. The people who never move above the poverty line are called:

**(a) chronic poor** (b) non-poor (c) both (a) and (b) (d) none of these

7. Rural poor includes:

(a) land less labourers only (c) tenants at will only (b) marginal farmers only **(d) all of these**

8. Poverty across different classes, regions or countries is called:

**(a) relative poverty** (b) absolute poverty (c) differential poverty (d) none of these

9. Under- development of an economy is a principal ca use of poverty. Which of the following factors are responsible for the above?

(a) Low level of national product (b) Chronic unemployment and underemployment (c) Capital deficiency **(d) All of these**

10. Which of the following measures are aimed at combating poverty in India?

(a) Distribution of income (b) GDP growth (c) Population control (**d) All of these**

**'Very Short Answer' Objective Type Questions**

1. What do you understand by poverty?

Ans. Poverty implies inability to fulfil minimum consumption needs for life, health and efficiency.

1. What is meant by relative poverty?

Ans. Relative poverty refers to poverty of one set of people in relation to the other.

1. What is meant by absolute poverty in India?

Ans. In India, concept of poverty line is used as a measure of absolute poverty.

1. Define poverty line.

Ans. Poverty line is that line which expresses per ca pita average monthly expenditure by which people can satisfy their minimum needs.

1. What do the persons below poverty line indicate?

Ans. The persons below poverty line indicate 'absolute poverty'.

1. Which project has been launched to provide employment to educated unemployed youth in India?

Ans. Prime Minister Rozgar Yojana (PM RY)

7. When is growth converted into development?

Ans. Growth is converted into development when poverty is reduced.

8. Economic equality and GDP growth may not move in the same direction. Comment.

Ans. Economic equality may not improve even when GDP increases. This happens when. (i) increase in GDP is pocketed by the rich in terms of high profits, and the poor continue to get low wages, and (ii) increase in GDP is not linked with increase in employment.

9. Sickness and inefficiency are related to poverty. How?

Ans. A poor man cannot afford expenditure on nutritious food and healthcare. It leads to sickness, and sickness leads to inefficiency.

10. Does population growth always compound the problem of poverty?

Ans. It is true in case of overpopulated countries like India. Because of overpopulation, India is burdened with massive unemployment. In such a situation, growth of population would only com pound the problem of unemployment. We all know that unemployment is just another name of poverty: higher level of unemployment implies higher level of poverty.

**11. What is meant by ‘Food for Work’ programme?**  
**Ans.** National Food for Work Programme (NFWP). This programme was initially launched w.e.f. February 2001 for five months and was further extended. This programme aims at augmenting food security through wage employment in the drought affected rural areas in eight States, i.e., Gujarat, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttaranchal. The centre makes available appropriate quantity of foodgrains free of cost to each of the drought affected States as an additionality under the programme. Wages by the State government can be paid partly in kind and partly in cash. The workers are paid the balance of wages in cash, such that they are assured of the notified minimum wages.

**12. State an example each of self-employment in rural and urban areas,**

**Ans.** PMRY is a self-employment programme in rural areas.  
SJSRY is a self-employment programme in urban areas.

**13. How can creation of income earning assets address the problem of poverty?**  
**Answer.** With the creation of income earning assets, people will have a way to earn their livelihood. It will help in removal of poverty.

**14. Briefly explain the three-dimensional attack on poverty adopted by the government.**  
**Answer.** A country is caught in a vicious trap once poverty is inbuilt in the system. The government has followed three-dimensional poverty removal programme. These dimensions are:

→The rate of economic growth should be raised. Economic growth can be helpful in removing poverty by the trickle down effect. It was felt that raised economic growth would benefit the underdeveloped region and the more backward sections of the society.

→Various beneficiary-oriented programmes need to be strengthened. For this, local institutions have to be involved in these programmes. The activities should be organised on a co-operative basis. Major training programmes should be taken up to improve the skills of potential workers.

→To provide minimum basic amenities. The provision of basic amenities should be made like water supply, sanitation, nutrition, etc. to the people.

**UNIT-2**

**CHAPTER:- HUMAN CAPITAL FORMATION**

**Multiple Choice Questions**

**Choose the correct option**:

1. The stock of 'skill and expertise' of a nation at a point of time is known as:

(a) social infrastructure **(b) human capita**l (c) physical capital (d) none of these

2. Which of the following is the problem of human capital formation in India?

(a) Brain-drain (b) Low academic standards (c) Rising population (**d) All of these**

3. The ability to read and write is known as:

(a) education (b) human capital **(c) literacy** (d) human development

4. Which of the following organisations is engaged in designing text material up to the senior secondary level?

(a) UGC (c) ICMR (b) AICTE **(d) NCERT**

5. The responsibility of direction and control of higher education is with:

(a) Government of India (b) Department of Higher Education **(c) University Grants Commission** (d) none of these

6. Who is responsible for the implementation of rules and regulations for technical education in the country?

(a) National Council of Educational Research and Training (b) University Grants Commission **(c) All India Council of Technical Education** (d) Indian Council for Medical Research

7. As per census 2011, the literacy rate in rural India is about:

(a) 74% (b) 85% **(c) 69%**(d) 60%

8. Female literacy in India is:

(a) 75% b) 85% (c) 70% **(d) 66%**

9. Overall literacy rate (census 2011) in India is:

**(a) 74%** (b) 56% (c) 65% (d) 60%

10. Human capita l formation leads to:

(a) efficient utilisation of inputs (c) increase in GDP growth

(b) increase in the stock of physical capital **(d) both (a) and (c)**

**'Very Short Answer' Objective Type Questions**

1. Define human capital.

Ans. Human capital refers to the stock of 'skill and expertise' of a nation at a point of time.

1. What is meant by human capita l formation?

Ans. Human ca pita l formation refers to the process of adding to the stock of human capital over time.

1. What are the possible sources of human capital formation?

Ans. Sources of human capital formation are: (i) Expenditure on education, (ii) Expenditure on health, (iii) On-the-job training, (iv) Study programmes for adults, (v) Migration, and (vi) Expenditure on information.

1. What is human development?

Ans. Human development refers to development of the individuals as valuable personalities by acquiring good education and attaining good health.

1. What is physical capital?

Ans. Physical ca pita l refers to the produced means of production. Stock of physical capital measures production capacity of a nation.

1. What is financial capital?

Ans. Financial capital refers to paper claims against physical capital.

1. What is 'on-the-job training'?

Ans. On-the-job training is a form of training taking place in a normal working situation. 8. What is migration?

Ans. Migration refers to movement of people across different areas (like from rural to urban areas) of the country in search of job opportunities.

1. What is brain drain?

Ans. Brain drain refers to migration of skilled manpower to developed countries of the world.

1. What is Right to Education?

Ans. In the year 2009, the Government of India has passed an Act, called RTE. It makes education a matter of right to all children in the age group of 6-14 years.

1. Education is an important ingredient of growth. Comment.

Ans. It is true that education is an important ingredient (input) of growth.

This is because: (i) education produces civilised citizens,

(ii) education produces scientists, engineers, doctors and educationists. These serve as important agents of growth,

(iii) education increases the rate of participation through skill formation. It lends momentum to the pace of growth, and

(iv) education generates the sense of the social dynamism. It promotes collective effort to frame programmes and policies of growth.

Briefly, education gives momentum to the process of growth. Uneducated societies are often backward societies. Educated societies, on the other hand, are developed societies of the world.

1. Human capital formation increases the efficiency of physical capital. How?

Ans. This happens in two ways, as under:

(i) Human capital formation leads to higher level of skills and expertise. Accordingly, labour force is better equipped to handle 'plant and machinery' (physical capital). This raises the efficiency of physical capital by way of higher output per unit of input (of physical capital.

(ii) Human capital formation leads to innovations. Implying, new ways of doing things,or doing things better than before.

1. **How is human development a broader term as compared to human capital?**  
   **Ans**.
2. Human capital is a narrow concept which treats human beings as a means to achieve an end which is higher productivity, failing which the investment is not considered to be productive.
3. Human development is a broader concept which considers human beings as ends in themselves. Human welfare can be achieved through investments in education and health. It considers welfare—a right of every individual irrespective of their contribution to labour productivity. Every individual has right to be literate and lead a healthy life
4. **What factors contribute to human capital formation?**  
   **Ans.**Sources of Human Capital Formation :
   1. Expenditure on Education
   2. Training
   3. Expenditure on Health
   4. Migration
   5. Expenditure on Information.
5. **Mention two government organisations each that regulate the health and education sectors.**  
   **Ans.**In India, the ministries of education at the Centre and State level, departments of education and  
   various organisations such as National Council of Educational Research and Training (NCERT),  
   University Grants Commission (UGC) and All India Council of Technical Education (AICTE) regulate the education sector. Similarly, the ministries of health at the Union and State level, departments of health and various organisations like Indian Council for Medical Research (ICMR) regulate the health sector.
6. **Education is considered an important input for the development of a nation. How?**  
   **or**  
   **Examine the role of education in the economic development of a nation.**

**Ans.** Expenditure on education is an important source of capital formation. Education is an important source of human capital formation, because:

1. It generates technical skills and creates a manpower which is suited for improving labour productivity. It, thus, results in sustained economic development.
2. It tends to bring down birth rate which, in turn, brings decline in population growth rate. It makes more resources available per person.
3. It results in social benefits since it spreads to others who may not be skilled. Thus, investment in education leads to higher returns in future.

**Read the following statements- Assertion (A) and Reason(R). Choose one of the correct alternatives given below:**

1. **Assertion (A)**'Skill India' programme launched by the government is an attempt to increase human capital formation.

**Reason(R**)'skill' is an important element of human capital.

and support to economies across the world.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)**'Start-ups' and 'Skill India' programmes are complementary to each other.

**Reason (R**) one programme promotes the other. Thus: (i) 'Start-ups' (new business ventures) helps utilisation of the idle entrepreneurial abilities of the people. It, thus, promotes skill formation. (ii) Skill formation (through higher education and training) helps the establishment of 'start- ups'.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)** Higher salaries in developed countries are ultimately related to higher level of human capital in these countries.

**Reason (R**) salaries are related to productivity (higher productivity implies higher salaries) and productivity is related to the level of human capital (higher level of human ca pita l implies higher productivity).

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)** Benefits of education always exceed the cost of education.

**Reason (R**) The benefits of education accrue throughout the service span of an individual (spread over several years) while the cost of education is restricted only to the period of education (spread over a few years). However, the underlying assumption behind this assertion is that after education, an individual remains employed throughout his service span of life.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

1. **Assertion (A)**Skill formation facilitates conversion of 'economic growth' into economic development.

**Reason (R**) Higher the rate of participation, faster is the conversion of growth into development.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: b

1. **Assertion (A)**Education, not the vocationalisation of education is the core element of skill formation.

**Reason (R**) It is the vocationalisation of education (rather than mere education) which is the core element of skill formation. Education may just be degree-oriented. Vocationalisation, on the other hand, is skill-oriented.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: d

1. **Assertion (A)**Gender bias in India is a hindrance to the process of skill formation.

**Reason (G**ender bias (particularly in rural India) does not favour female education as much as male education.

**Alternatives**:

a. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct 1 explanation of Assertion (A).

b. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is false.

d. Assertion (A) is false but Reason(R) are is true.

Ans: a

**CHAPTER:- RURAL DEVELOPMENT**

**Multiple Choice / fill in the blanks /match the column and etc.**

1. Government established the institutional sources of finance:

(a) to provide adequate credit to farmers at a cheaper interest rate

(b) To assist small farmers in raising agricultural productivity and maximizing their income

(c) Both( a) and (b)

(d) Neither (a) nor (b)

Ans. c) Both( a) and (b)

1. The problems faced in Rural banking are :
2. Insufficient rural credit

(b) Growing overdues

(c) Inadequate amount of sanction

(d) All of these

Ans. (d) All of these

3. …………….. is the Apex body which coordinates The functioning of different Financial Institutions working for expansion of rural credit.

(a) NABARD (b) Self- Help Groups

© Regional rural banks (d) Commercial banks

Ans.(a) NABARD

4. The scheme of "Micro Finance" is extended through:

(a) NABARD.

1. Self-Help Groups

(c) Land Development Banks

(d) Regional Rural Banks

Ans. (b)Self-Help Groups

5. Name the state which is held as a success story in the efficient implementation of milk Cooperatives:

(a) Maharashtra. (b)Jammu and Kashmir

(c) Gujarat. (d)Andhra Pradesh

Ans. (c) Gujarat.

6. Which one of the following is not a non institutional source of credit:

(a) Money lenders (b) Relatives

(c) Traders and commission agents (d) Land Development Bank

Ans: (d)Land Development Bank

7. Why is minimum support price fixed by the government ? :

1. For government owned benefit

(b) To safeguard the interest of farmers

(c) To safeguard the interest of consumers

(d) None of these

Ans.(b) To safeguard the interest of farmers

8. ……………. State of India was the biggest contributor to Operation Flood.

( Fill in the blank with correct alternative)

(a) Maharashtra (b) Gujarat

© Andhra Pradesh (d) Punjab

Ans. (b)Gujarat

9. ………….. refers to the study or practice of growing flowers fruits and vegetables.

( fill in the blank with correct answer)

Ans. Horticulture

10. In which year Operation Flood was implemented?

Ans. In the year 1966

11. …………… accounts for largest share in distribution of livestock in India.

( Choose the correct alternative)

1. Fisheries (b) Poultry

© Cattle rearing (d) Camel rearing

Ans. Poulry form

12. …………… is a system in which all the farmers can pull their milk produced as per grading and then market it to Urban centres.

( Fill in the blank with correct answer)

Ans. Operation Flood

13. Match the items given under "A" with the suitable statement under "B":

|  |  |  |  |
| --- | --- | --- | --- |
|  | A |  | B |
| I | Involves cultivating fruits vegetables,etc. | a | Information Technology |
| Ii | Operation Flood or White Revolution | b | Animal Husbandry |
| Iii | Involves use of computers to retrieve and transmit information. | c | Horticulture |
| Iv | Involves catching processing or selling of aquatic animals. | d | Dairying |
| V | Involves breeding, rearing and caring for farm animals. | e | Fisheries |

Ans. (i) c, (ii) d, (iii) a, (iv) e, (v) b

**14. What is Micro Finance ?**

Ans. Micro Finance is a Credit scheme extended to the poor through Self Help Groups (SHGs).

**15. What is Cooperative marketing?**

Ans. Cooperative marketing refers to a system in which marketing societies are formed by farmers to sell the output collectively and to take advantage of collective bargaining.

**16. What is buffer stock?**

Ans. It refers to the stock of grains held by the government to stabilize their prices and to be used in emergencies. It is also used for distribution through fair price shops under the public distribution system.

**17. What are regulated markets?**

Ans. Regulated markets are those which are set up by the government and where farmers sell their product without the presence of middlemen.

**18.What do you mean by Operation Flood?** Ans. Operation Flood is a system whereby all the farmers can pool their milk produce according to different grading and the same is processed and marketed to Urban centres through cooperative.

**19. How is green revolution different from golden Revolution?**

And. Green Revolution relates to increase in production of food grains specially wheat and rice, whereas Golden Revolution, relates to the increase in production of fruits and vegetables in the Horticulture sector.

**20. Why do farmers need credit ?**

Ans.Due to long time gap between crop sowing and realisation of income, farmers need credit.

**21. What is subsistence farming?**

Ans. It is farming done for production of those crops which are meant for self consumption by the farming families.

**22. Name the states that are major producers of Marine Products .**

Ans. Kerala, Gujarat , Maharashtra and Tamil Nadu are the major producers of Marine Products.

23. Define non institutional sources of Agricultural credit.

And. Landlords, village traders and money lenders are the three important sources of non- institutional agricultural credit in India.

24. What is meant by agricultural diversification ?

Ans. Agricultural diversification refers to the rellocation of some of farm's productive resources into new activities or crops.

**Short answer type questions (3 & 4 marks)**

1. **Discuss the institutional source of credit which is regarded as the Apex Bank?**

Ans. National bank for Agriculture and Rural Development NABARD is regarded as the Apex Bank which coordinates The functioning of different Financial Institutions working for expansion of rural credit.

(I) Its objective is to promote health and strength of credit Institutions

(ii) It also provides financial assistance to the non farm sector to promote integrated rural development and prosperity of backward rural areas.

1. **Discuss the different policy instruments initiated by the government to improve agricultural marketing.**

Ans. Government initiated the following policies:

(I) Minimum Support Prices( MSP): To safeguard the interest of farmers, government fixes the minimum support prices of 24 agricultural products, like wheat, rice etc. Spuch a price may be regarded as an offer price, at which the Government is willing to buy any amount of grains from the farmers.

(ii) Maintenance of Buffer Stocks: The Food Corporation of India (FCI) purchases wheat and rice at the procurement prices, to maintain buffer stock. It helps to ensure regularity in supply and stability in prices.

(iii) Public Distribution System( PDS): PDS operates through a network of ration shops and fair price shops, which offer essential commodities at a price below the market price, to the weaker sections of the society.

1. **What do you mean by rural development? Bring out the key issues in rural development.**

Ans. Rural development refers to continuous and comprehensive socio-economic process, attempting to improve all aspect of rural life. Some of the key issues in rural development include:

1. Development of Human Resources: The quality of the human resource need to be improved by giving proper attention to literacy and better Health facilities.
2. Development of infrastructure: It involves improvement in electricity, irrigation, credit , marketing and transport facilities.
3. Land Reforms: It includes:(I) Elimination of exploitation in land relations;(ii) Actualization of the goal of 'land to the Tiller',(iii) Improvement of socio-economic conditions of rural poor by widening their land base;(iv) Increasing agricultural productivity and production.
4. Alleviation of Poverty: It includes taking serious steps for alleviation of poverty and bringing a significant improvement in living conditions of weaker sections.
5. Development of the productive resources of each locality to enhance opportunities of employment (particularly other than farming.)

4. **Explain the role of micro credit in meeting credit requirements of the poor.**

Ans. Micro- credit or Self- Help group has emerged as the major Micro Finance program in the country in recent years.

(I) Their focus is largely on those rural poor, who have no sustainable access to the formal banking system. So, their target groups comprise of small and marginal farmers, agricultural and non- agricultural labourers, artisans, etc.

(ii) SHGs promote thrift in small proportions by a minimum contribution from each member.

(iii) From the pooled money, credit is given to the needy members at reasonable interest rates, which is to be repaid in a small installments.

(iv) By March 2003, more than 7 lakh SHGs had reportedly been credit linked. Such credit provisions are generally referred to as micro- credit programmes. SHGs have also helped in the empowerment of women.

**5**. **Why is agricultural diversification essential for sustainable livelihoods?**

Ans. Agricultural diversification is essential for sustainable livelihoods because:

(I) There is greater risk in depending exclusively on farming for livelihood.

(ii) To provide supplementary gainful employment to rural people and to enable them to overcome poverty by earning higher levels of income.

(iii) Diversification towards new areas is necessary not only to reduce the risk from agriculture sector but also to provide productive sustainable livelihood options to rural people. (iv) To ease the pressure of population on land there is an urgent need to shift the workforce from agriculture to allied activities and non agricultural sectors.

(v) Crop diversification ensures higher growth and higher income levels for rural people.

(vi) Diversification helps in stabilizing farm income during the phase of fluctuations in production levels and market prices.

(vii) It also helps in meeting the growing demand for products like fruits, fish, eggs, milk and Milk products etc.

**6. What are the alternative channels available for agricultural marketing? Give some examples.**

Ans. Some of the alternative channels available for agricultural marketing are:

(a) Farmers Market: The concept of farmers market has been started to give boost to the small farmers by providing them provide direct access to the consumers and eliminating the middlemen. some examples of these channels are :(I) Apni Mandi in Punjab, Haryana and Rajasthan;(ii) Hadaspar Mandi in Pune;(iii) Rythu Bazar in Andhra Pradesh; and(iv) Uzhavar Sandies ( farmers market in Tamil Nadu).

(b) Alliance with National and Multinational Companies: Several national and multinational fast food chains are increasingly entering into contracts/ alliances with farmers.

(I) they encourage the farmers to cultivate farm products (vegetables fruits etc.) of the desired quantity.

(ii) They provide them with not only seeds and other inputs but also a sure procurement of the produce at pre-decided prices.

(iii) Such arrangements help in reducing the price risk of farmers and expand the market for farm products.

**7**. "**Rural economic development is essential for Indian economic development" Do you agree with the given statement? Support your answer with valid reasons.**

And. Rural development refers to the process of improving the quality of life and economic well- being of people living in rural areas. In other words, it refers to continuous and comprehensive socio-economic process, aiming at improving all the aspects of rural life. According to the father of the nation Mahatma Gandhi the real growth of India lies in the growth of villages. Rural development is important for India as 2/3rd of the population directly and indirectly still depends on agriculture. Moreover 1/3rd of the population of the country still lives below the poverty line.Following are the areas of rural development:

I. Development of human resources: Female literacy, education and skill development.

ii. Hi

iii. Land Reforms

iv. Development of indigenous productive resources

v. Infrastructural development like transportation, electricity, communication,irrigation, marketing, credit etc. vi. Standard of living of rural people.

vii. Alleviation of poverty.

8. **Write a brief note on sustainable development.**

Ans. Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs. It is the organising principle for meeting human development goals while simultaneously sustaining the ability of natural systems to provide the natural resources and ecosystem services upon which the economy and Society depend. The deserved outcome is a state of society where living conditions and resources are used to continue to meet human needs without undermining the integrity and stability of the natural system.

**9. Discuss Horticulture as an alternative source of .**

Ans. Horticulture is defined as the culture of plants, mainly for food, materials, comfort and beauty. It is that branch of plant agriculture that deals with garden crops like fruits, vegetables and ornamental plants. In Indian horticulture sector contributes around 1/3rd of the value of agricultural produce and 6% of gross domestic product. India is a world leader in producing a variety of fruits like mangoes, coconuts, cashew nuts and certain spices. India is considered as the second largest producer of fruits and vegetables in the world. Recently horticulture has emerged as a good source of livelihood in India. Women in rural areas have been participating in the following horticulture activities:

i. Flower harvesting

ii. Nursery maintenance

iii. Tissue culture

iv. Hybrid seed maintenance

v. Food processing

vi. Propagation of fruits and flowers.

**10. What do you mean by agricultural marketing? Discuss its various advantages.** Ans. Agricultural marketing refers to the entire system which helps the farmer in disposing of his surplus produce. It includes operations like- i. Procurement i.e., collection of farm produce after harvesting

ii. Processing the produce,

iii. Grading of the produce according to quality, iv. Packaging of the produce according to different qualities and quantities,

v. Storing of the produce for sale in future, and vi. Transportation of the produce to the market for sale.

A well organised agricultural Marketing System has the following advantages:

I. It helps the farmers in getting remunerative prices for their produce.

ii. It ensures a smooth supply of Agricultural raw materials to agro- based industries in the country.

iii. It ensures a regular supply of food grains to the country's population.

iv. It motivates the farmers to adopt productive agricultural techniques which would help in raising agricultural productivity and output.

v. The surplus agricultural produce, when sold in international market, becomes a source of foreign exchange earnings.

**11.Explain the features of a regulated market.**

Ans. A welll organised and regulated market should have the following features:

(i) The number of middlemen in between the farmers and the ultimate consumers should be as less as possible.

(ii) There should be adequate and proper facilities for storing agricultural commodities. Such facilities can help the farmers in getting remunerative prices for their produce.

(iii) There should be adequate and cheap transportation facilities so that the farmers can take their produce to the market instead of disposing it off in the village itself at exploitative prices.

(iv) Dissemination of information should be there through mass media coverage to provide information about the market conditions as well as the prevailing prices.

(v) Grading and standardization facilities should be made available to maintain the quality of product.

12.' **Information Technology plays a very significant role in achieving sustainable development** **and food security' -comment** Ans. Information Technology has revolution in ized many sectors in the Indian economy. It is widely accepted that IT will play a critical role in achieving sustainable development and food security in the 21st century.

1. Through appropriate information and software tools, government has been able to predict areas of foods insecurity and vulnerability, to prevent or reduce the like likelihood of an emergency.
2. It also circulates information regarding emerging Technologies and its applications, prices, weather and soil conditions for growing different crops,e tc..
3. IT sector is also generating employment opportunities in the backward areas. For example, info kiosk (ie PC with internet, scanner,etc.) PC with Internet is canvera Kshetra have been started in the rural areas, to enable the kiosk owner earn a reasonable income by providing different services like e-mail, video- conferencing etc.
4. IT aims to make every village a knowledge centre, where it provides a sustainable option of employment and livelihood.

**Infrastructure**

1.Which infrastructure helps the economic system from outside

a.social b.economic c. both a and b d. none of these

2. Economic infrastructure comprises of

a. banking and financial institution b. sanitation c. drinking water facility D none of the above

3. Which of the following is included in the economic infrastructure?

a.Transport b. communication c.electricity d.all of these

4. Major source of energy generation in India is

a.Hydropower b.Nuclear Power c.Thermal Power d. wind power

5. The major user of commercial energy is

a.Agriculture b. transport c. household d.industry

6. Only one fifth of total hospitals are located in

a.Urban areas b. rural areas c.both A and B d.none of these

7. How many types are there of infrastructure

a.3 b.4 c.2 d.6

8. Commercial sources of energy includes

a.firewood b. dried dung c.Petroleum. d. A gricultural waste

9. Non commercial sources of energy includes

a. fire wood b. coal c. petroleum d.electricity

10. Non conventional sources of energy includes

a.Coal b.petroleum c. firewood d.solar energy

11. Conventional sources of energy includes

a.Solar energy b. wind energy c. tidal power d. Petroleum

12. What is the component of economic infrastructure

a. education b. Sector c. housing facility d.transport

13.What is the component of social infrastructure

a. health sector b. Energy c.transport d.communication

14. How many tiers are there in health sector

a.3 b. 4 c. 2 d. 6

15.In terms of generation of power………….. energy contribution is the maximum

1. hydle b. Nuclear c. Thermal d. solar

### 

**Question 1. Explain the term ‘infrastructure’.**  
**Answer. I**nfrastructure refers to the basic supporting structure which is built to provide different kinds of services in an economy. Infrastructural installations do not directly produce goods but help in promoting production activities in an economy. Examples of infrastructure are: transport, communication, banking, power etc.

**Question 2. Explain the two categories into which infrastructure is divided. How are both interdependent?**  
**Answer.** There are two types of infrastructure: (a) economic infrastructure, (b) social infrastructure.  
Economic infrastructure directly supports the economic system from inside. Examples are energy, transport and communication. Social infrastructure indirectly supports the economic system from outside. Examples are health, education and housing.  
Economic and social infrastructure are complementary to each other. Economic infrastructure improves the qualityof economic resources and raises the production, but it cannot be possible until population is literate to use them efficiently. Thus, both of them are needed for the growth and development of the country.

**Question 3. How do infrastructure facilities boost production?**  
**Answer.** The prosperity of a country depends directly upon the development of agricultural and industrial production. Agricultural production requires power, credit, transport facilities, etc.; the deficiency of which leads to fall in productivity. Industrial production requires machinery and equipment, energy, banking and insurance facilities, marketing facilities, transport services which include railways, roads and shipping and communication facilities etc. All these facilities help in raising agricultural and industrial productivity.

**Question 4. Infrastructure contributes to the economic development of a country. Do you agree? Explain.**  
**Answer.** Infrastructure contributes to the economic development of a country and it is an important determinant of its growth and development. It raises productivity, induces investment in different areas of economic activity, raises size of the market, facilitates outsourcing and employment. Thus, it is an essential support system for the economic development of the country.

**Question 5. What is the state of rural infrastructure in India?**  
**Answer.** A majority of people live in rural areas. The state of rural infrastructure in India is as follows:

1. Rural women are still using bio-fuels such as crop residues, dung and fuel wood to meet their energy requirement.
2. They walk long distances to fetch fuel, water and other basic needs.
3. The census 2001 shows that in rural India only 56 per cent households have an electricity connection and 43 per cent still use kerosene. About 90 per cent of the rural households use bio-fuels for cooking.
4. Tap water availability is limited to only 24 per cent of rural households. About 76 per cent of the population drinks water from open sources such as wells, tanks, ponds, lakes, rivers, canals, etc.
5. Another study conducted by the National Sample Survey Organisation noted that by 1996, access to improved sanitation in rural areas was only 6 per cent.

**Question 6. What is the significance of ‘energy’? Differentiate between commercial and non-commercial sources of energy.**  
**Answer.** Energy is a critical aspect of development process of a nation. It is essential for industries, agriculture and related areas like transportation of finished goods. It is also used for domestic purposes like cooking, lighting, heating, etc.  
Difference between Commercial and Non-commercial Sources of Energy

**Question 7. What are the three basic sources of generating power?**  
**Answer.** Sources of generating power are:

1. water—it gives hydroelectricity.
2. oil, gas, coal—they give thermal electricity.
3. radioactive elements like uranium, plutonium—they give atomic power or nuclear power.

**Question 8. What do you mean by transmission and distribution losses? How can they be reduced?**  
**Answer.** Transmission and Distribution (T&D) losses refer to theft of power which has not been controlled.  
Nation’s average loss is 23%.  
T&D losses can be reduced by having:

1. Appropriate size of conductors
2. Proper load management
3. Meter supply
4. Privatisation of distribution work
5. Introduction of energy audits. Some steps have already been initiated in this direction.

**Question 9. What are the various non-commercial sources of energy?**  
**Answer.** Vegetable wastes, firewood and dried dung.

**Question 10. Justify that energy crisis can be overcome with the use of renewable sources of energy.**  
**Answer.** There is energy crises in the country. The demand for all commercial fuels is more than its supply.  
Government is encouraging the use of hydel and wind energy.  
Bio-gas generation programmes have been boosted up. For a tropical country like India, where sun is an abundant source, solar energy should be given highest priority.

**Question 11. How has the consumption pattern of energy changed over the years?**  
**Answer**. Pattern of energy consumption in India is as follows:

1. In India, different sources of energy are converted into a common unit ‘million tonne of oil equivalent’ (MTOE).
2. At present, commercial energy consumption is 65 per cent of total energy consumed in India.
3. Goal has the largest share of 55 per cent, followed by oil at 31 per cent, natural gas at 11 per cent and hydro energy at 3 per cent.
4. Non-commercial energy sources account for over 30 per cent of the total energy consumption.
5. There is import dependence on crude and petroleum products, which is likely to grow to more than 100 per cent in the near future.
6. Atomic energy is an important source of electric power. At present nuclear/atomic energy accounts for only 2.4 per cent of total primary energy consumption.

**Question 12. How are the rates of consumption of energy and economic growth connected?**  
**Answer.** Energy is a critical aspect of development process of a nation. It is essential for industries, agriculture and related areas like transportation of finished goods. It is also used for domestic purposes like cooking, lighting, heating, etc. With economic growth, consumption of energy will rise.

**Question 13. What problems are being faced by the power sector in India?**  
**Answer.** Emerging Challenges in the Power Sector:

1. Insufficient Installed Capacity
2. Underutilisation of Capacity
3. Losses Incurred by SEBs
4. Uncertain Role of Private Players
5. Public Unrest
6. Shortage of Raw Materials
7. Unable to Cover up the Transmission and Distribution (T&D) Losses
8. Operational Inefficiency
9. Incomplete Electrification
10. Need to Conserve Energy.

**CHAPTER:-EMPLOYMENT**

**Question 1.Who is a worker?**  
**Answer.**A worker is an individual who is doing some productive employment to earn a living.

**Question 2.Define worker-population ratio.**  
**Answer.**Workforce Participation Rate (or ratio)  
Employment-Growth, Informalisation and Related Issues NCERT Solutions for Class 11 Indian Economic Development Q2  
Participation ratio is defined as the percentage of total population which is actually participating in productive activity. It is also called workers-population ratio. It indicates the employment situation of the country. A high ratio means that more proportion of population is actively contributing to the production of goods and services of a country.

**Question 3. Are the following workers — a beggar, a thief, a smuggler, a gambler? Why?**  
**Answer:**No, they are not workers because they, are not doing any productive activity.

**Question 4.Find the odd man out (i) owner of a saloon with more than 10 employees (ii) a cobbler  
(iii) a cashier in Mother Dairy (iv) a tuition master (v) transport operator (vi) construction worker.**  
**Answer.**Owner of a saloon.

**Question 5.The newly emerging jobs are found mostly in the sector (service/manufacturing).**  
**Answer.**Service.

**Question 6.An establishment with four hired workers is known as (formal/informal) sector establishment.**  
**Answer.**Informal.

**Question 7.Raj is going to school. When he is not in school, you will find him working in his farm. Can you consider him as a worker? Why?**  
**Answer.**Raj is disguisedly unemployed.

**Question 8.Compared to urban women, mSre rural women are found working. Why?**  
**Answer.**Participation rate for women is higher in rural areas compared with urban areas. It is because in rural areas, poverty forces women to seek employment. Without education, women in rural areas find only less productive jobs and get low wages.  
In urban areas, men are able to earn high incomes. So they discourage female members from taking up jobs.

**Question 9.Meena is a housewife. Besides taking care of household chores, she works in the cloth shop which is owned and operated by her husband. Can she be considered as a worker? Why?**  
**Answer.**Meena is a self-employed worker. She is working in her husband’s cloth shop. She will not get salary.

**Question 10.Find the odd man out (i) rickshaw puller who works under a rickshaw owner (ii) mason (iii) mechanic shop worker (iv) shoeshine boy.**  
**Answer.**Shoeshine boy.

**Question 11.The following table shows distribution of workforce in India for the year 1972-73. Analyse it and give reasons for the nature of workforce distribution. You will notice that the data is pertaining to the situation in India 30 years ago.**

|  |  |  |  |
| --- | --- | --- | --- |
| Place of Residence | | Workforce(in millions) | |
|  | Male | Femal | Total |
| Rural | 125 | 70 | 195 |
| Urban | 32 | 7 | 39 |

**Answer.** In 1972-73, out of total workforce of 234 million, 195 million was in rural areas and 39 million in urban areas. It shows 83% workforce lived in rural areas. Gender differences were also observed. In rural areas, males accounted for 125 million workforce and women 70 million of workforce. In urban areas, 32 million males formed the workforce whereas women workforce was only 7 million. In the country only 77 million female workers were there as compared to 157 million male workers. In other words, 32% of female workers were there and 68% male workers were there in the country in 1972-73. The data shows:  
(a) pre dominance of agriculture.  
(b) more male workers both in urban and rural areas.  
(c) less fe

# Chapter: - Environment and Sustainable Development

**Question 1. What is meant by environment?**  
**Answer.** Environment is defined as the total planetary inheritance and the totality of all resources. It includes all the biotic and abiotic factors that influence each other. Biotic elements are all living elements — the birds, ainimals and plants, forests, fisheries, etc. Abiotic elements are like air, water, land, rocks, sunlight, etc.

**Question 2. What happens when the rate of resource extraction exceeds that of their regeneration?**  
**Answer.** Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. The carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the waste generated are within the assimilating capacity of the environment. Carrying capacity of the environment helps to sustain life. Absence of carryingjcapacity of environment means absence of life.

**Question 3. Classify the following into renewable and non-renewable resources (i) trees (ii) fish**  
**(iii) petroleum (iv) coal (v) iron-ore (vi) water.**  
**Answer.** Trees and fish are renewable resources.  
Petroleum, coal, iron-ore and water are non-renewable resources.

**Question 4.Two major environmental issues facing the world today are and .**  
**Answer.**Global warming and Ozone depletion.

**Question 5.How do the following factors contribute to the environmental crisis in India? What problem do they pose for the government?**

1. **Rising population**
2. **Air pollution**
3. **Water contamination**
4. **Affluent consumption standards.**
5. **Illiteracy**
6. **Industrialisation**
7. **Urbanisation**
8. **Reduction of forest coverage**
9. **Poaching**
10. **Global warming.**

**Answer.**

1. The high rate of growth of population adversely affects the environment. It certainly leads to soil and water pollution.
2. India is one of the ten most industrialised nations of the world. It has led to unplanned  
   urbanisation, pollution and the risk of accidents. The CPCB (Central Pollution Control Board) has identified 17 categories of industries which are significant pollutors.
3. Many states in India are on the edge of famine. Whatever water is available, it is polluted or contaminated. It causes diseases like diarrhoea and hepatitis.
4. With affluent consumption standards, people Use more air conditioners. CFCs are used as cooling agents in air condition which leads to ozone depletion.
5. Illiteracy and ignorance about the use of non-renewable resources, alternative energy sources, lead to environmental crisis.
6. With rise in national income or economic activity, there is rise in industrialisation and urbanisation. This raises pollution of air, water and noise. There are accidents, shortage of water, housing problems, etc. In other words, with rise in national income there is ecological degradation which reduces welfare of the people.
7. Whenever there is large migration of population from rural to urban areas, it leads to fast growth of slum areas. There is excess of load on the existing infrastructural facilities. It causes environmental degradation and ill health.
8. The per capita forestland in the country is only 0.08 hectare. There is an excess felling of about 15 million cubic metre forests over the permissible limit. Indiscriminate felling of trees has led to destruction of forest cover.  
   Once forests haye been cut down, essential nutrients are washed out of the soil all-together. This leads to soil erosion. It leads to disastrous flooding since there is no soil to soak up the rain.
9. Poaching leads to extinction of wildlife.  
   The long-term results of global warming are:  
   (a) Melting of polar ice caps with a resulting rise in the sea level and coastal flooding.  
   (b) Disruption of drinking water supplies as snow melts.  
   (c) Extinction of species.  
   (d) Frequent tropical storms and tropical diseases.

**Question 6. What are the functions of the environment?**  
**Answer.** The environment performs^four vital functions:

1. Environment Supplies Resources. Resources include both renewable and non-renewable re¬sources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. In other words, a continuous supply of the resource remains available. Examples of renewable resources are trees in the forest and fish in the ocean. Non-renew¬able resources are those which get exhausted with extraction and use. Example, fossil fuels.
2. Environment Sustains Life. Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. The carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the waste generated are within the assimilating capacity of the environment. Carrying capacity of the environment helps to sustain life. Absence of carrying capacity of environments means absence of life.
3. Environment Assimilates Waste. Production and consumption activities generate waste. This occur mostly in the form of garbage. Environment absorbs garbage.
4. Environment Enhances Quality of Life. Environment includes oceans, mountains, deserts, etc. Man enjoys these surroundings, adding to the quality of life.

**Question 7. Identify six factors contributing to land degradation in India.**  
**Answer.** Some of the factors responsible for land degradation are:

1. Loss of vegetation occuring due to deforestation
2. Unsustainable fuel wood and fodder extraction .
3. Shifting cultivation
4. Encroachment into forest lands
5. Forest fires and over grazing
6. Non-adoption of adequate soil conservation measures.

**Question 8. Explain how the opportunity costs of negative environmental impact are high.**  
**Answer.** Opportunity cost is the cost of alternative opportunity given up. The country has to pay huge amount for damages done to human health. The health cost due to degraded environmental quality have resulted in diseases like asthma, cholera, etc. Huge expenditure is incurred in treat¬ing the diseases.

**Question 9. Outline the steps involved in attaining sustainable development in India.**  
**Answer.** Steps and Strategies to Achieve Sustainable Development in India:

1. Use of Non-Conventional Sources of Energy
2. LPG, Gobar Gas in Rural Areas
3. CNG in Urban Areas
4. Wind Power
5. Solar Power through Photovoltaic Cells
6. Mini-Hydel Plants
7. Traditional Knowledge and Practices
8. Biocomposting
9. Biopest Control.

**Question 10. India has abundant natural r&ources—substantiate the statement.**  
**Answer.** India has rich quality of natural resources in plenty. It is clear from the following points:

1. India has rich quality of soil, hundreds of rivers and tributaries, lush green forests, abundant mineral deposits under the land surface, vast stretch of the Indian Ocean, mountain ranges, etc.
2. The black soil of the Deccan Plateau is particularly suitable for cultivation of cotton. It has lead to concentration of textile industries in this region.
3. The Indo-Gangetic plains — spread from the Arabian Sea to the Bay of Bengal — are one of the most fertile, intensively cultivated and densely populated regions in the world.
4. India’s forests provide green cover for a majority of its population and natural cover for its  
   wildlife.
5. Large deposits of iron-ore, coal and natural gas are found in the country. India alone accounts for nearly 20 per cent of the world’s total iron-ore reserves.
6. Bauxite, copper, chromate, diamonds, gold, lead, lignite, manganese, zinc, uranium, etc. are also available in different parts of the country.

**Question 11. Is environmental crisis a recent phenomenon? If so, why?**  
**Answer.** Yes, because India is suffering from population explosion. .

1. India has approximately 20 per cent of livestock population on a mere 2.5 per cent of the world’s geographical area. The high density of population and livestock and the competing  
   uses of land for forestry, agriculture, pastures, human settlements and industries exert an enormous pressure on the country’s finite land resources.
2. The per capita forestland in the country is only 0.08 hectare. There is an excess felling of about 15 million cubic metre forests over the permissible limit. Indiscriminate felling of trees has led to destruction of forest cover.

**CHAPTER:- COMPARATIVE DEVELOPMENT EXPERIENCES OF INDIA AND ITS NEIGHBOURS**

**Multiple Choice / fill in the blanks /match the column and etc.**

1. Which type of economic system is followed in China?
2. Mixed economy (b) Socialist economy.

© Capitalist economy. (d) None of these

And. Socialist economy.

2. Which sector of the economy contributes the highest to India's GDP?

1. Service (b) Agriculture

(c) Industry(d) None of these

Ans. Service

3. ……….. program was started in China with the aim of industrialisation.

1. great Leap Forward (b) great proletarian cultural revolution

© one child policy (d) none of these

Ans. great Leap Forward

4. Great Leap Forward campaign was initiated in:

1. Pakistan (b) India

© China. (d) both( a) and( b)

Ans. China.

5. When were reforms introduced in China?

1. 1979 (b) 1977 (c) 1978 (d) 1976

Ans. 1978

6. In which year, a program named 'The Great Leap Forward' Campaign was initiated by Mao to modernize China's economy?

(a) 1957 (b) 1958 © 1959 (d) 1968

Ans. 1958

7. Introduction of economic reform in Pakistan took place in…………….

( Choose the correct alternative)

1. 1978 (b) 1980 © 1988 **(**d) 1991

Ans. 1988

8. China announced its Five Year Plan in the year…………….

( Fill in the blank with correct answer.)

Ans. 1953

9. Pakistan announced its five-year plan in the year…………….(1956/ 1951)

( Fill in the blanks with correct alternative)

Ans. 1956

10. China introduced…………….. policy in the late 1970s to lower its population growth.

( Fill in the blanks with correct answer)

Ans. One child

11. …………..has the highest population.

( Choose the correct alternative)

(a)India (b) Pakistan © China (d) Indonesia

Ans. China

12. In …………...manufacturing contributes highest to Gross Domestic Product.( India/ China)

( Fill in the blank with correct answer)

Ans. China

13. The reforms process…………. was introduced in 1988. ( China/ Pakistan)

( Fill in the blanks with correct alternative)

And. Pakistan

14. Proportion of people below poverty line is more in…………..( India /Pakistan)

(Fill in the blanks with correct alternative)

Ans. India

15. In both India and Pakistan, the contribution of agriculture to GDP is…………..

( Choose the correct alternative )

1. 13% (b) 18% © 23% (d) 33%

Ans. 23%

16. What is Commune system of Farming?

Ans. In china, communes were started, under which people used to cultivated lands collectively.

17. Why were special economic zones setup in China?

Ans. Special economic zones was set up in China to attract foreign investors.

18. What was the great proletarian cultural revolution ?

And. Under this Revolution students and professionals was sent to work and learn from the countryside.

19. Which sector of the economy contributes the highest to China's GDP.?

Ans. Secondary sector

20. Which country has the highest life expectancy- India, China or Pakistan?

And. China has the highest life expectancy of 71.6 years

21. Which type of economic system is followed in Pakistan?

And. Mixed economic system.

22. Match the items given under 'A'with the suitable statements under 'B':

|  |  |  |  |
| --- | --- | --- | --- |
|  | A |  | B |
| i | Great proletarian cultural revolution | a | India |
| ii | Shows level of growth and development of a country | b | China |
| iii | Sixth most populous country in the world | c | Human Development Index |
| iv | To transform Agrarian Economy into modern economy | d | Pakistan |
| v | Highest Density of Population | e | Great Leap Forward Campaign |

Ans. (i) b, (ii) c, (iii) d, (iv) e, (v) a.

23. Arrange the following events of China in chronological order and choose the correct alternative:

(I) Great proletarian cultural Revolution

(ii) Great Leap Forward campaign

(iii) Introduction of Economic Reforms

(iv) First five year plan

(Choose the correct alternative)

1. (ii),(iv),(iii),(i). (b).(iv),(ii),(i),(iii)

(c)(ii),(iv),(i),(iii). (d) (iv),(i),(ii),(iii)

Ans. (b) (iv),(ii),(i),(iii)

24. Arrange the following events in chronological order:

(i) The Great proletarian cultural Revolution

(ii) Initiation of reforms in Pakistan

(iii) Agricultural reforms in China

(iv) Opening up of Indian economy

Choose the correct alternative :

1. (iii),(ii),(i),(iv) (b) (ii),(iv),(i),(iii)

© (iii),(iv),(i), (ii) (d) (i), (iii), (ii), (iv)

Ans. (d) (i) ,(iii), (ii), (iv)

**Short Answer type Questions (3-4 Marks)**

1. Explain the great Leap Forward campaign of China as initiated in 1958.

**Ans**. In 1958, a program named 'The Great Leap Forward' campaign was initiated by Mao to modernize China's economy.

(I) The aim of this campaign was to transform agrarian economy into a modern economy through the process of rapid industrialization. Compare and contrast India and China's sectoral contribution towards GDP in 2003 what does it indicate

(ii) Under this program, people were encouraged to set up industries in their backyards.

(iii) In rural areas, Commune was started. Under the Commune system, people collectively cultivated lands.

(iv) 1958, there were 26000 communes covering almost all the farm population.

(v) GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people.

2.What was the important implication of the 'one child norm' in China?

**Ans.** The important implication of the one- child norm is that it has reduced the growth rate of population and provides a better health services for women and has reduced the risk of death and injury associated with pregnancy.

However, this policy has some other implications also. For instance, after a few decades, there will be more elderly people in proportion to young people in China. This will Force China to take steps to provide social security measures with fewer workers.

1. Answer the following questions on the basis of the following data:

(a) Comment upon the population growth rates among the three countries.

(b) Which country has most skilled in sex ratio?

|  |  |  |  |
| --- | --- | --- | --- |
| Country | Estimated Population (in million) | Annual Growth of Population (in%) | Sex Ratio |
| India | 1311 | 1.2 | 929 |
| China | 1371 | 0.5 | 941 |
| Pakistan | 188 | 2.1 | 947 |

Source: World development indicators, 2015, www.worldbank.org

Ans. (a) From the given data it is clear that Pakistan's population is very small as compared to India and China. Pakistan's population accounts for around one- tenth of India or China. China is the biggest country among the three Nations. Density of population of China is the lowest. The growth rate of population of Pakistan is highest among the three Nations followed by India and China. The one child policy adopted by China in the late 1970s helped the country in attaining low annual growth rate of population. The annual population growth rate of India is in the danger zone of more than 1 % per annum. India will be overtaking China as the most populous nation in the world in the near future.

(b) Among India, China and Pakistan, India has most skewed data in sex ratio which is 929 female per thousand male. This is one of the major concerns for the country from demographic viewpoint.

1. Describe the path of development initiatives taken by Pakistan for its economic development.

Ans. (I) Mixed economic system: Pakistan adopted the pattern of mixed economy to achieve the aim of economic development.

(ii) Introduction of various policies: In the late 1950s and 1960s Pakistan introduced a variety of regulated policy framework for growth of domestic Industries. The policy combined tariff protection for manufacturing of consumer goods together with direct import controls on competing imports.

(iii) Green revolution: In case of agriculture, the introduction of Green revolution and increase in public investment in infrastructure led to a rise in the production of foodgrains. This changed the agrarian structure dramatically.

(iv) Importance to role of public sector in early 1970s: In the early 1970s, nationalisation of capital goods industries took place.

(v) Importance to role of Private Sector in late 1970s: In the late 1970 there was a shift in the government policy, when it adopted the policy of denationalisation. Government encouraged the private sector and also offered various incentives to them. All this created a conducive climate for new investments.

(vi) Financial Support during late 1970s: During this period, Pakistan also received financial support from (a) Western Nations, and (b) Remittances from my emigrants to the Middle- East. This helped the country in stimulating economic growth.

(vii) Reforms: In 1988, reforms were initiated in the country.

4.Evaluate the various factors that led to the Rapid growth in economic development in China.

Ans. : (a) Reforms introduced in China: The basic reason for fast industrial growth in China can be traced back to the reforms introduced in phases in 1978.China introduced reforms in phases.

In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. In agriculture, commune lands were divided into small plots which were allocated to the individual households. They were allowed to keep all income from the land after paying stipulated taxes.

In the later phase, reforms were initiated in the industrial sector. Private sector firms and township and village Enterprises were allowed to produce goods. At this stage, Enterprises owned by government (known as state-owned Enterprises or SOEs), were made to face competition.

(ii) Dual dual pricing in the reforms process:The reform process also involved dual pricing. This means fixing the prices in two ways: (a)

farmers and industrial units were required to buy and sell fix quantities of inputs and outputs on the basis of prices fix by the government.(b) for the for other transactions, the inputs and outputs were purchased and sold at market prices.

(iii) Special Economic Zones(SEZ): In order to attract foreign investors, special economic zones were set up.

1. Analyse and compare the annual growth of GDP of India China and Pakistan between 1980 - 2015 from the table given below:

**Annual Growth of GDP(%), 1980-2015**

|  |  |  |
| --- | --- | --- |
| **Country** | **1980-90** | **2011-2015** |
| **India** | 5.7 | 6.7 |
| **China** | 10.3 | 7.9 |
| **Pakistan** | 6.3 | 4.0 |

**Source: Key indicators for Asia and Pacific 2016, Asian Development Bank, Philippines, World development indicators 2016.**

Ans. China has the second largest Gross Domestic Product of $ 19.8 trillion. India's GDP is around $ 8.07 trillion. On the other hand, Pakistan's GDP is $ 0.94 trillion. China always had an edge over its neighbouring Nations as far as GDP is concerned. When many developed Nations were having a challenge in maintaining a growth rate of even 5%, China succeeded in maintaining a growth rate of nearly double digit. During 1980s China achieved double digit growth rate. At the same time Pakistan was ahead of India. During this

phase India recorded the lowest growth rate among the three Nations. During 2011- 15 Pakistan witnessed a drastic reduction on its growth rate at 4%. Many economists believe that the reforms introduced in 1988 and long-term political instability are the main reasons behind the decline in growth rate witnessed by Pakistan.

5.Explain the great proletarian cultural revolution of China.

Ans. The great proletarian cultural revolution was a Socio- Political Movement in the People's Republic of China from 1966 until 1976. Launched by Mao Zeodong, then chairman of the Communist Party of China, its stated goal was to preserve Chinese Communism by purging remnants of capitalists and traditional elements from Chinese society and to reimpose Mao Zeodong thought as the dominant ideology in the Communist Party of China. The revolution marked Mao's return to a position of power after a period of less radical leadership to recover from the failures of the great Leap Forward, whose lefist policies resulted in a famine and approximately 30 million deaths only five year earlier.

1. "In certain parameters of development, Pakistan has an edge over India".This statement is true/false.Answer with valid reasons.

Ans. True. These areas are:

(I) Reduction of poverty: Pakistan had recorded at lesser percentage of BPL population than India (in 2013"

(ii) Access to improved water resources: Percentage of population having access to improved water resources is higher in Pakistan then in India.

(iii) Trade- GDP ratio it is 20% for Pakistan, and just 10% for India.

1. Explain how China has an edge over India.

China and India in several ways as under.

(I) Its growth story reflects an historically correct process of transformation from the predominance of agriculture sector (in GDP growth) to the predominance of the industrial sector. In India, the industrial sector has not grown as much as in China.

(ii) China is far ahead of India in terms of HDI( Human Development Index).

1. What led to Rapid growth in China even when India China and Pakistan together adopted the strategy of economic reforms?

Ans. (I) Shift from a centrally planned economy to a market economy

(ii) Focus on export- related to domestic production.

(iii) Influx of FDI

(iv) Availability of cheap labour force, giving China a comparative cost advantage.

(v) GLF( great Leap Forward) campaign launched in 1958.